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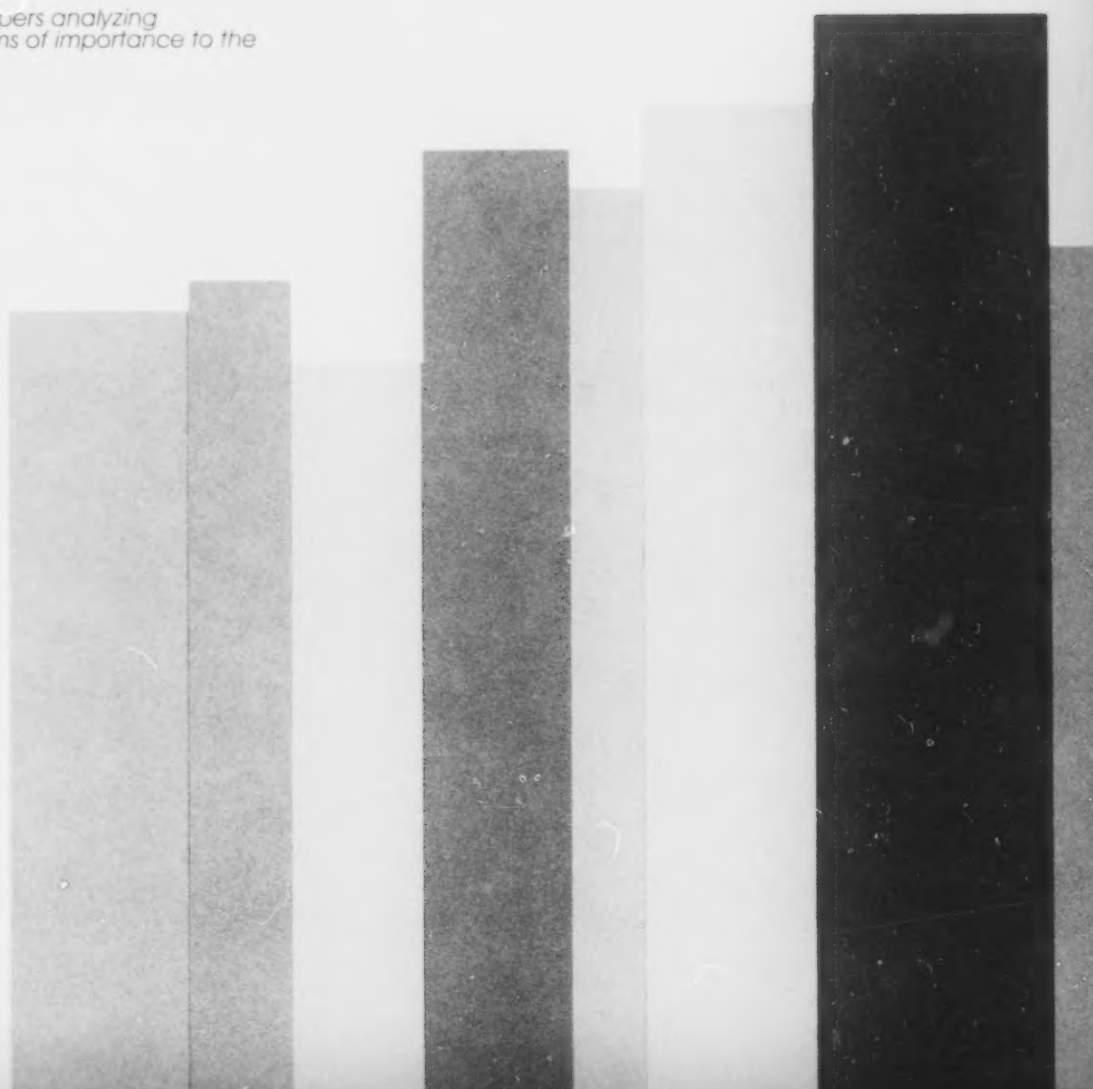
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NLC WORKING PAPER

The Visible Hand

***Major Issues in City
Economic Policy***

One of a series of Working Papers analyzing issues, problems, and programs of importance to the nation's cities and towns.



NLC WORKING PAPER

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THE VISIBLE HAND

Major Issues in City Economic Policy

By

**Ann O'M. Bowman
Lincoln Government Fellow
National League of Cities**

November 1987

**A Research Report
of the National League of Cities**

**Research for this report was done under the Lincoln Government
Fellowship, which is co-sponsored by the National League of
Cities and the Lincoln Institute of Land Policy,
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PREFACE

The Visible Hand is one of two major NLC reports that result from the research on local economic development done by Dr. Ann O'M. Bowman during her tenure as NLC's Lincoln Government Fellow for the academic year 1986-87. The other is Tools and Targets which contains survey findings about cities' use of specific programs for economic development purposes.

These two volumes make unique, substantive, and substantial contributions to the available knowledge and understanding regarding city economic development. We believe these studies will be of interest and use to city officials and to others concerned with this topic. We commend Dr. Bowman's efforts and her achievement.

The Lincoln Government Fellowship is co-sponsored by NLC and the Lincoln Institute of Land Policy in Cambridge, Massachusetts. We are proud of and pleased with this collaboration and we appreciate the Lincoln Institute's continuing support. Dr. Bowman of the University of South Carolina was the third Lincoln Fellow. Previous fellows were Dr. Robert Jay Dilger, University of Redlands, whose research focused on the effects of Federal tax policy on cities and Dr. Michael A. Pagano, Miami University (Ohio), who conducted studies on several aspects of capital finance. The fourth Lincoln Fellow, Dr. Arthur T. Johnson of the University of Maryland-Baltimore County, is now undertaking research on land use and land policy.

The Fellowship is an integral part of NLC's research activities. Among other publications, NLC publishes Research Reports, empirical studies of conditions and policies in America's municipalities, and a Working Papers series that includes reports that analyze issues of importance to the nation's cities and towns. We aim to provide dependable information and stimulating ideas that will increase the understanding of, and engender interest in, municipal affairs and city issues within America's federal system. Dr. Bowman's work fulfills these aims admirably.

ii.

We join Dr. Bowman in acknowledging and thanking the city officials, scholars, and NLC staff who contributed to the development of The Visible Hand. We are very pleased to offer this report and its companion volume to NLC's member cities and state leagues, the policy community, and the public.

Alan Beals
Executive Director

William E. Davis, III
Director, Office of Policy
Analysis and Development

AUTHOR'S ACKNOWLEDGMENTS

Many people contributed to this report and deserve special mention.

The basis of this report is survey data. Without the cooperation of the respondents to the National League of Cities' surveys, this report would not have been possible. I commend the 326 mayors and the 322 economic development professionals who completed and returned the questionnaires.

The design of the research and the interpretation of the findings were aided by the insightful comments offered by participants in a series of roundtable discussions. These participants included Edward Bergman, Thomas Black, Michael Brodd, Bill Claggett, Anthony DeVito, Scott Fosler, Howard Gudell, Bill Hamilton, Arthur Johnson, Hugh Knox, Larry Ledebur, Blaine Liner, Marilyn Swartz Lloyd, Harold Lucas, Bill Lysaught, Michael McCain, Susan Mueller, Michael Pagano, Todd Swanstrom, and Ned Zimmerman.

The staff at the National League of Cities assisted in the research project in myriad ways. Generally, they made my year in residence at NLC a pleasant and positive experience. More specifically, they improved this report immensely. The value of our on-going discussions on the topic of city economic development is reflected throughout the document. Bill Barnes, NLC's research director, was the intellectual spearhead. His knowledge and guidance played an influential role in the evolution of the project. Several other staff members should be singled out for praise. They include Doug Peterson and Bill McCarthy of NLC's policy office, Virginia Mayer and Matt Kane, NLC's economic development specialists, and Frank Shafroth, NLC's federal relations director. Stephen Morris was invaluable with the research assistance he provided. Deborah Johnson very ably handled the production of both this report and its companion volume, Tools and Targets.

The comments and editorial advice of Scott Fosler and Leo Penne on an earlier draft of this report considerably improved the final product.

iv.

The Lincoln Institute of Land Policy sponsors the Lincoln Government Fellow at the National League of Cities and provided financial support for the roundtable discussions. The encouragement and support of the executive director of the Lincoln Institute, Ronald L. Smith, were very important to the project.

Ann O'M. Bowman
Lincoln Government Fellow
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THE VISIBLE HAND**Major Issues in City Economic Policy**

by

Ann O'M. Bowman**Lincoln Government Fellow
National League of Cities****October 1987****EXECUTIVE SUMMARY**

Economic development is a powerful item on city agendas. The decade of the 1980s has witnessed an increase in economic intervention by city governments. Both the nature and the extent of the intervention has changed. Cities are more strategic in their selection of economic development tools and they are more active in their use. This "strategic activism" is documented by the findings in this study.

This report analyzes the views of two groups knowledgeable about strategic activism in city economic development: mayors and economic development professionals. The analysis is based on responses to two 1987 National League of Cities' surveys. More than 320 cities, from New York City to Devil's Lake, North Dakota are represented in the findings.

1. THE SUCCESS/PERFORMANCE ISSUE. Appropriate packages of city government actions can influence economic performance. This does not mean that everything will work everywhere. Selective government actions that are appropriate to a situation, however, appear to work.

A. Economic development activism (city government's use of tools) is associated with positive economic performance. Although other factors may intervene, there is a statistically significant correlation between the use of capacity improvement tools (e.g., infrastructure improvements) and declines in unemployment rates. The use of

cost reduction tools (e.g., tax-exempt bonds) is more weakly correlated with declining unemployment. A key decision for city policymakers is the selection of the appropriate tools.

B. The economic development targets with which cities have had the greatest success, according to city economic development professionals, are office buildings (62% indicate more than moderate success), downtown development (60%), expansion of existing business (60%), and retention of existing business (56%).

C. The cities that have been the most successful in their economic development efforts, according to city economic development professionals, are Baltimore, Boston, San Antonio, Atlanta, and Indianapolis.

2. ISSUES AND GOALS. While mayors see a number of economic development issues as important, the most frequently mentioned issue is the loss of industrial jobs. The most frequently mentioned economic development goal is increasing employment opportunities.

A. The loss of industrial jobs is of at least moderate importance to 75% of the mayors. Neighborhood versus downtown development is of at least moderate importance to 69% of the mayors. Other issues that rank high on the list of city concerns include the uneven distribution of the benefits of economic development across social classes (66%) and competition from suburban development (61%).

B. The most important goals of the economic development process are increasing employment opportunities (69% of the mayors selected it as one of the top three goals in their city), improving the city's tax base (56%), retaining jobs and businesses (54%), and achieving balanced quality growth (43%). Despite concerns over the issue of uneven distribution of economic development benefits across social classes, the goal that has the most explicit redistributive intent (channeling economic benefits to the poorest areas of the city) is a "top three" goal in only 9% of the cities.

3. FEDERAL POLICY CHANGES. Several recent changes in federal policy direction are feared by cities as having negative impacts on city economic development.

The federal policy changes and the percentages of economic development professionals who anticipate negative effects are:

1. cuts in UDAG, EDA, and CDBG programs (86%)
2. increased restrictions on IDBs (83%)
3. cuts in highway and transit funds (83%)
4. loss of general revenue sharing (72%)
5. changes in tax laws for business (61%)
6. changes in waste water treatment policy (51%)

4. STATE GOVERNMENT INFLUENCE. State government influence on city economic development varies, but, in the assessment of city economic development professionals, the positive aspects outweigh the negative ones. In addition, certain state economic development programs have been found to be very useful to city officials.

A. The state policies that city economic development officials most frequently consider the most positive are municipal home rule (61%) and municipal fiscal authority (48%).

B. The state policies that have a negative impact in 25% or more of the cities are state tax policies (42%), state regulatory policies (36%), and state annexation laws (30%).

C. The state economic development programs that more than one-fourth of the city economic development professionals find very useful include: infrastructure improvements (34%), low interest loan programs (30%), education improvements (29%), state university facilities (28%), job training (27%), and industrial development authorities (25%).

5. ECONOMIC DEVELOPMENT "DEALS." Within a city, different actors play different roles in putting together economic development "deals." Several different types of beneficiaries of the economic development process exist.

A. The "agenda setters" in local economic development deals include: mayors, developers, and nonprofit development corporations.

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B. Forming a supportive environment for development are the local Chamber of Commerce and the local newspaper.

C. Perennial thorns in the side of the development deals include neighborhood groups, labor union leaders, and in cities where it is not supportive, the local newspaper.

D. The major beneficiaries of the economic development process are the central business district, local developers, the local labor force, and existing business firms.

CHAPTER 1

INTRODUCTION

In 1776, Adam Smith argued that an "invisible hand" guides economic forces in a market society. This report is about the "visible hand" of city government in the local economy. City governments are active promoters of economic development. They enact policies, create programs, and take actions designed to enhance the development potential of the community. Some critics claim that by doing so, city government is interfering with the free flow of the market. It is the argument of this report that a well-guided governmental hand can be constructive.

The major challenge faced by the contemporary American city involves answering certain basic questions. The first is philosophical and asks: to what extent should city governments become involved in their local economies? Once that question is answered satisfactorily the next obvious question is: how should city governments involve themselves, or, what should the nature of their involvement be? In other words, should city governments intervene, and if so, how should they structure their economic interventions?

Hypothetical answers to the "how involved" question can be arrayed along an involvement continuum. The guidance for government involvement is reflected in the answer to the second question: the "targets" of a city's economic development effort and the "tools" it uses to achieve the goals it has targeted. It is the interaction of the involvement decision with the tool and target choices that produces city economic development policy.

If one end of the involvement continuum is labeled "do nothing" and the other is labeled "do everything," then city government activity falls somewhere in between. Cities cannot "do nothing." By virtue of its general exercise of taxation and expenditure powers and through its regulatory authority, city government influences economic development. Nor does the "do everything" option exist. Given the workings of capitalism, cities cannot take on all of the activities associated with economic development.

What cities opt for is the "do something" approach. They design proactive economic development strategies based on an understanding of larger economic trends and the city's

economic base. They identify a level of activity and select targets and appropriate tools. This "do something" approach may involve observing and learning from other cities. Its style is often entrepreneurial, emphasizing innovation and experimentation. Its structure often takes the form of a partnership in which city government and the private sector establish areas of joint action.

The involvement and the nature of the "do something" approach vary as objective conditions vary. Some cities may prefer to maintain a relatively low level of involvement, relying on the private sector to take the lead. Other cities may take a more active role, serving as both the catalyst and the implementor of development projects. While some cities identify relatively few targets and employ a limited number of tools, others embrace a full complement of both. The explanation for the behavioral differences lies in a mix of internal and external forces. Internally, factors such as the political culture of a community influence choices. Externally, competition from other cities may have an important impact on city behavior. A city that has experienced an economic shock such as the loss of a major employer addresses the economic development question differently from a city enjoying an economic boom. In each instance, however, the city government is influencing the local economy. This signals a basic working assumption on the part of city government. To the question "How involved should city governments be in their local economies?" these governments answer "actively." To the question "What should be the nature of that involvement?" these governments answer "strategic interventions."

This city government "strategic activism" in matters of local economic health is a part of a larger trend toward sectoral blurring -- a relaxation of the distinctions between the public and private sectors. In the post World War II era, it was fairly easy to determine which was which. The public sector delivered community services paid for by tax dollars. The private sector had profit making ventures to itself. But a public sector made conscious of matters such as return on investment by the fiscal crises of the 1970s, began to cast covetous glances at the private sector's domain. The emergence of the entrepreneurial city government signalled the move of the public sector into activities traditionally reserved for the private sector. (The movement has not been unidirectional. The public sector, through a process known as privatization, has begun to allow the private sector to provide some services formerly provided by government.)

In local economic development, the role played by city government is expanding. And, at the same time, the role is more focused. City governments are attempting to determine just what the "do something" option means for them. The chapters that follow examine four major aspects of the city government-local economy interaction. This examination is based on the responses of mayors and economic development professionals in more than 300 cities across the nation to two surveys by the National League of Cities' (NLC). The surveys were mailed to all U.S. cities with populations of 100,000 or more, to all NLC member cities with populations between 50,000 and 100,000, and to a representative set of cities with populations below 50,000. Of the 431 cities in the sample, mayors in 326 cities and economic development professionals in 322 cities responded. A full description of the research design appears in Appendix A and a list of the responding cities can be found in Appendix B.

The focus of Chapter 2 is upon the definition of economic development. "Economic development" is a phrase that is widely embraced but seldom clearly defined. Conceptually, economic development has meant wealth creation to some observers, while to others, the phrase has signified material progress. As a goal, economic development ranges in meaning from tax base improvement to the redistribution of economic benefits to disadvantaged areas.

The critical issues in economic development include the loss of industrial jobs and the achievement of balanced, quality growth. Economic development has different meanings in different settings and Chapter 2 explores them, using characteristics like city size, region, level of distress, and economic structure, to delve into the overall findings. These characteristics are important in providing a clearer picture of local economic development.

The subject of Chapter 3 is the intergovernmental context in which local economic development occurs. Cities are porous. That is, they are affected by the actions of other governments -- national, state, and local. The economic development-related activities of these other governments structure city government's behavior. For example, when the national government reduces Urban Development Action Grant funding or a state government creates enterprise zones, the effect is felt at the local level. City governments have to design their economic development strategies within the "rules of the game" established by other levels of government. In addition, the actions of other local

governments affect the municipal development agenda. These are the topics that are covered in Chapter 3.

Chapter 4 analyzes the internal dynamics of the local economic development process. It explores the interactions of organizations and actors that are involved in development and the beneficiaries that emerge from the process. There are different types of organizations -- public, private, and joint -- pursuing economic development. An array of actors play important (and frequently, multiple) roles in the development process. The chapter also investigates the different beneficiaries of the development process and the extent to which they reap rewards. Based as it is on information from economic development professionals, Chapter 4 offers an insider's view of the workings of local economic development.

In some senses, Chapter 5 addresses the very important "bottom line" aspect of city government involvement in the local economy. The chapter tackles the success or, as it is often labeled, the performance question. The issue is essentially this: What kind of effect does city government have on its economy? Some cities are in robust economic health without active government intervention. In other places, an aggressive program of government-sponsored economic development activities has moved the local economy in a positive direction. And in still other communities, city government involvement has not paid the anticipated dividends. Is it simply the magic of circumstance that makes government activity successful in one locality but not another? Chapter 5 pursues the success question and offers answers from a variety of perspectives.

CHAPTER 2

DEFINING ECONOMIC DEVELOPMENT

Governments at all levels mount policy offensives and allocate scarce resources in the name of economic development. Mayors of America's cities reportedly devote about one-third of their time to economic development activities. But what does the phrase really mean? This chapter explores the shades of meaning associated with the phrase.

(1) Economic Development as a Concept

In modern Western societies, economic development has meant material progress. When Adam Smith wrote of the "progress of England towards opulence and improvement," he was writing about economic development.

This conceptualization of economic development evolved from an earlier era in which government was only tangentially involved in economic development. During that period, when economic development occurred it was, as H. W. Arndt has said, "a spontaneous process in which government played a marginal role." The emergence of the modern nation-state changed this. With it, according to W.W. Rostow, the promotion of economic development came to be seen as a legitimate objective of government policy. Material progress meant, therefore, the expanded wealth of the nation.

As a result, economic development could not be easily separated from economic growth. The literature operationally defined successful economic development (or "material progress") as an increased flow of goods and services or a sustained increase in per capita income. Given this orientation to economic development as growth in output and income, it is not surprising that the key ingredient was capital. As one of the leading textbooks of the period stated, "capital accumulation is the very core of economic development."

This capital-dominated conceptualization of economic development endures today, but a broadening of its meaning is at work. This definitional expansion stems from the increasing realization that material progress does not necessarily carry with it social progress. While wealth creation continues to be the driving force, issues of social well-

being, once considered peripheral, are being accorded greater legitimacy. An expanded conception of economic development is the result.

Adding issues of social well-being to economic development effectively separates the concept from simple economic growth. No longer are measures of economic growth automatically assumed to be indicators of economic development. For example, an increase in per capita income, a common measure of economic growth, does not signal the elimination of poverty. In fact, the increase in per capita income may actually mask a widening gap between rich and poor. Economic growth has occurred but economic development, given its expanded meaning, may not have. A dual city of rich and poor may be the result. To twist the analogy popular in economic development, some of the boats have defied the rising tide.

The emphasis on social well-being corresponds to a rethinking of economic development wherein "wealth" is not only capital, but an enhancement of the human condition. Therefore, economic development moves from simple wealth creation to become the capacity to create wealth. The shift in orientation triggers a concomitant policy shift. This capacity depends on education and training; that is, it depends on an investment in people.

An example of the definitional expansion of economic development is "linkaging." Linkaging is economic jargon for a form of humanistic economics insisting on the social impact of economic development initiatives. Linkaging then, by its very existence as an operative concept, reveals a new movement in which the link between social objectives and economic development objectives is indissoluble and ethically imperative. A growing number of U.S. cities are linking large scale commercial development (office and retail buildings and hotels) to social concerns (especially housing and employment.) The underlying argument is that commercial development can have negative effects on housing and employment. Development and social issues are, therefore, linked. As one analyst put it: "it's the cities' attempt to share the profits of their prospering sectors with their poor." In practice, this means that developers are required to provide low or moderate income housing or employment to targeted groups or contribute funding to programs that support these objectives. Boston and San Francisco pioneered social policy linkage, and it is spreading. For example, in return for city approval of a massive upscale redevelopment

project in Jersey City, New Jersey, developers agreed to reserve a certain percentage of dwelling units for low and moderate income individuals.

This shift in thinking about economic development may not be as revolutionary as it seems. After all, even Adam Smith considered the capabilities of a nation's inhabitants part of its stock of fixed capital. Undoubtedly, however, in its contemporary incarnation, economic development has achieved its fullest meaning ever. It now signifies government involvement in a process aimed primarily at improving economic well-being without abandoning issues of social well-being.

Given such a full meaning, economic development is understandably of unqualified importance to political jurisdictions. It is good public policy. But it is important to understand the context in which it occurs. The interaction of federalism and capitalism structures economic development. The authority of an individual political subdivision is confined to a specific geographical territory, but the flow of capital is not similarly constrained. Consequently, the location of economic activity assumes great importance. Political jurisdictions expend tremendous energies maintaining and enhancing their economies. State governments, for example, have devised elaborate strategies to promote economic development within their boundaries. Recently, however, much of the state effort has been aimed at creating an environment for economic growth rather than the more targeted industrial attraction programs of the past (such as Mississippi's "Balance Agriculture with Industry" plan). Irrespective of the specifics of the strategies, their intent is to influence the growth of physical and (occasionally but increasingly) human capital.

The significance of economic development is not lost upon the political leaders of American cities. In a recent National League of Cities survey of 326 mayors, almost 90% of them indicated that economic development is one of the top three priorities in their city. The only other priority that enjoys such unwavering support is public safety. (The priorities and their levels of support appear in Table 2-1.)

Economic development is a powerful item on local agendas. To see patterns in the responses, the data in Table 2-1 can be broken down by an assortment of city characteristics: city population size, region, level of distress, and economic structure. Doing so only underscores the virtually universal importance of economic development. For

example, mayors of cities both large and small assign economic development a high priority. Regardless of economic structure (whether the city has an employment base weighted

Table 2 - 1 City Priorities

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>Percent of Cities Selecting this Activity as 1st, 2nd or 3rd Priority</u>
Economic Development	36.5	29.8	19.6	86.0
Public Safety	45.1	24.5	13.2	82.6
Environment and Housing	4.6	17.8	28.5	51.2
Education	5.5	13.8	15.0	34.1
Transportation	6.4	9.2	11.7	27.1
Social Services	0.3	3.7	9.2	10.1

toward services, manufacturing, retail, or government), mayors find economic development a top priority. In fact, the only discernible variation in its importance is in region and community distress level. And it is a fairly minor variation. A higher proportion of mayors in the East South Central (composed of the states of Kentucky, Tennessee, Alabama, and Mississippi) and West South Central (Arkansas, Louisiana, Oklahoma, and Texas) areas place greater priority on economic development than do mayors in New England (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut) and the Pacific region (Washington, Oregon, California, Alaska, and Hawaii). Mayors of distressed cities (as defined by the Urban Development Action Grant formulation that takes into account a city's population growth, poverty level, housing age, and unemployment rate, among other factors) tend to assign a higher priority to economic development than do mayors of less distressed cities.

These regional and distress-induced differences are relatively minor, however. Without equivocation, economic development can be said to be the central focus of American city government.

(2) Economic Development as a Goal

At the local level, the centrality of economic development is not new. Any reading of the urbanization process in America highlights the intertwining of economic growth with social

and political development. In the early 19th Century for example, the developing cities of the (then) West had economies based in commerce. The leadership in these cities launched extensive campaigns to attract both capital and migrants from the established cities of the East. The initial goal was simply jurisdictional survival. As the cities stabilized, the goal became diversification of the economy. The cities that became forces in the region were those most successful in building a healthy, diversified economy.

As Table 2-1 reveals, contemporary cities, despite their contextual diversity, value economic development. How they actualize the phrase, that is, the manner in which the concept is transformed into goals, varies. Goals are the preferred outcomes, the objectives of the economic development process. Myriad goals exist. What passes for economic development in one city, may not in another.

Underlying the focus on goals is the notion that goals are attainable, that problems can be solved through the application of the appropriate technique. This notion persists despite the unrelenting and unresolved debate regarding the impact that city government actually has on its local economy. Many studies argue that the factors that affect the location decisions of commercial enterprise are beyond manipulation by local government. Others contend, however, that municipal entrepreneurship and civic effort can greatly influence the fate of the local economy. Regardless of the merits of the disparate perspectives, local political leaders have embraced the latter view. For example, 93% of the mayors in the NLC survey agree with the statement "city governments are responsible for stimulating and guiding economic growth." This reflects strong support for an activist governmental posture.

Table 2-2 lists eight economic development goals. These goals are not mutually exclusive, but they do convey different emphases. In the NLC survey, mayors were asked to select the top three goals and rank them according to importance in their city. The percentages associated with the rankings, based on the 326 mayors who responded to the goals question, appear in Table 2-2.

In most cities, economic development is a matter of increased employment opportunities. With more than 69% of the mayors selecting this as a top goal, it is far and away the leading objective. Increased employment can be accomplished by the attraction or creation of new firms and the expansion of existing ones. This is related to another popular goal:

the retention of jobs and businesses. Fifty-four percent of the cities are designing economic development strategies that build upon the economic base. And they are

Table 2 - 2 City Economic Development Goals

	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>Percent of Cities Selecting this Goal as 1st, 2nd, or 3rd Choice</u>
Increasing Employment Opportunities	25.8	24.8	18.8	69.5
Improving the City's Tax Base	23.0	15.0	18.5	56.1
Retaining Jobs and Businesses	16.9	23.3	13.5	53.7
Achieving Balanced, Quality Growth	17.2	11.3	14.5	43.0
Diversifying the Local Economy	8.3	10.1	13.2	31.7
Developing a Strong Indigenous Business Base	4.3	6.7	8.0	19.2
Eliminating Physical Blight	1.8	6.1	6.5	14.3
Channeling Economic Benefits to Poorest Areas	1.2	1.5	6.2	8.8
Other	1.2	0.6	0.3	2.1

assessing this in very tangible terms -- jobs and businesses. This implies that when a city evaluates its economic development "success," the logical indicators are employment growth and firm retentions and expansions.

It is among large cities with populations over 200,000, that the goals of increased employment and job/business retention find the greatest level of support. These goals are popular in smaller cities but at a slightly lower rate. Regionally, there is some fluctuation in the importance of the two goals. In cities in the East South Central portion of the country and in the West North Central (composed of Minnesota, Iowa, Missouri, North and South Dakota, Nebraska, and Kansas), increased employment is the preferred outcome. In the East North Central (cities in Ohio, Indiana, Illinois, Michigan, and Wisconsin), the retention of jobs and business is the critical goal. Compared to the rest of the country, these two goals are least important to cities in New England and the Pacific. As NLC Economic Reports have repeatedly demonstrated, overall national economic trends mask significant regional variation. This finding is reaffirmed with regard to the goals of the economic development process.

Cities experiencing greater distress tend to target employment and retention. It is among less distressed cities that employment growth, jobs, business retention are relatively minor

goals. As for economic structure, service cities are much more likely to target increased employment while retail cities focus more on retaining jobs and business.

The tax base is the key to city government survival. Consequently, it is not surprising to find in Table 2-2 that 56% of the mayors rank improvement of the tax base as one of their three major economic development goals. It can be considered somewhat of an indirect goal in that achievement of the employment increases and business retention goals ultimately benefits the tax base.

Cities in which tax base improvement is a major goal, tend to be medium sized cities (50,000 to 200,000 population), cities in New England and the Mountain region (the states of Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada), cities with low to medium levels of distress, and cities with economic structures based in manufacturing or services.

Taken together, these three goals -- increasing employment opportunities, improving the city's tax base, and retaining jobs and businesses -- are the ascendant economic development objectives in over half of the cities surveyed.

As reported in Table 2-2, a goal favored by 43% of the mayors is achieving balanced, quality growth. While employment, tax base, and retention objectives are the predominant goals in city economic development, the achievement of balanced, quality growth follows closely behind. Its popularity is likely due to its value to cities that have stable, secure economies and that can afford to qualify the growth objective.

An examination of city characteristics confirms this contention. Small cities (especially those below 50,000 population), located in the South Atlantic (Delaware, Maryland, District of Columbia, Virginia, West Virginia, North and South Carolina, Georgia, and Florida), New England, and Pacific regions, and enjoying very low levels of distress, regardless of economic structure, are the cities that have targeted balanced, quality growth. This subset of American cities is distinctly different from those described in the discussion of employment and business related goals, and these differences manifest themselves in goal orientation.

One-third of the mayors include diversification of the local economy among their top three economic development goals. Fewer than 10% of the mayors rank it their top goal, thus suggesting that despite its demonstrated importance to long term economic health, diversification occupies a subordinate position in the hierarchy of economic development goals. Cities are opting for shorter term, more visible goals such as jobs and business retention, taxes, and growth instead of longer term, more strategic targets such as diversification.

Few factors separate the small group of cities that find diversification important from other cities. There is a tendency for diversification to be considered more salient to cities in the West South Central region. This may be due to the oil-dependent economy in the region and its difficulties during the decade. And, somewhat counter-intuitively, diversification is a goal in cities where the local employment patterns mirror the national mix of services, manufacturing, and retail, and thus are already fairly diversified.

There are three "back burner" goals. These are the goals that very few of the cities count among their top objectives. One is the development of a strong indigenous business base. It is a major goal in less than 20% of the cities. This is especially difficult to reconcile with the strong support given the retention of jobs and business. One plausible explanation is that the development of a strong indigenous business base is encompassed in other listed goals. It may be seen as a component of retaining jobs and business. Another possibility is that while many cities have embraced retention, they have not been as receptive to creation or start-up strategies.

There is no discernible pattern to the small cluster of cities that target the development of a strong indigenous business base. There is a slight tendency for this goal to be more popular among medium sized cities, very or moderately distressed, or located in the Pacific region, than among other types of cities.

Another ancillary goal is the elimination of physical blight. Mayors do not "see" economic development in terms of ameliorating dilapidation or deterioration. The likely explanation of this is that the elimination of physical blight is an indirect outcome of the achievement of other goals. As employment grows, as business expands, as the local economy heats up, physical blight will be corrected.

Physical blight is an important goal among cities in the 50,000 to 100,000 population range and in cities in the Mid-Atlantic (New York, New Jersey, and Pennsylvania) region. No single distress level or economic structure characterizes the cities in which eliminating physical blight is important.

The channeling of economic benefits to the poorest areas of the city is the least favored goal of the eight listed. The lack of support for this goal suggests that although the concept of economic development is broadening beyond narrow investment strategies, equity or distributional concerns remain subordinate in the economic development programs of the vast majority of cities.

Channeling economic benefits to poor areas is not particularly popular anywhere. In the few instances where it is considered a top goal, the cities are characterized by large populations, a New England location, or mid to high level distress. This small group of cities appears to have rejected the "rising tide" or "trickle down" theories of economic development.

(3) Economic Development as an Issue

Thus far, economic development has been defined at two levels. As a concept, economic development has come to mean the improvement of material and social well-being. As a goal, economic development has most typically been pursued through the increase of employment opportunities, the improvement of the tax base, and the retention of jobs and business.

Ultimately, economic development is defined locally through the political process. Goal selection stems from the existence of issues and the identification of problems in the community. Addressing the issues and resolving the problems is the task of the local government.

The National League of Cities asked a panel of experts -- scholars, local elected officials and economic development staff, and members of the relevant policy community -- to assemble a list of the most critical contemporary issues in economic development. The ten

issues that they identified were included in the NLC survey of mayors. The mayors were asked to assess the importance of these issues to their city. The results appear in Table 2-3.

Table 2-3 Critical Issues in Economic Development

	<u>Very Important</u>	<u>Between Very and Moderately Important</u>	<u>Moderately Important</u>	<u>Between Moderately And Not Important</u>	<u>Not Important</u>	<u>No Answer</u>
The Loss of Industrial Jobs	39.6	9.2	26.4	9.5	13.8	1.5
Neighborhood vs. Downtown Development	25.2	11.3	32.2	9.2	21.5	0.6
Competing Suburban Development	19.3	13.2	28.8	13.8	22.1	2.8
The Disappearing Middle Class	17.2	7.7	31.0	14.4	27.3	2.5
Burdensome City Taxes	14.1	11.7	27.6	16.3	27.3	3.1
Uncontrolled Growth	14.1	10.1	22.7	10.1	42.0	0.9
Uneven Benefits of Economic Development Across Classes	12.0	12.6	41.4	17.8	14.7	1.5
Residents' Lack of Employable Skills	11.7	10.7	32.2	16.0	26.4	3.1
Poor Quality City Services	11.0	6.4	17.8	20.2	42.9	1.5
Lack of Attractive Residential Areas	6.1	5.5	25.5	16.9	44.2	1.8

One issue stands out from the rest in terms of its importance: the loss of industrial jobs. Virtually 40% of the mayors consider the loss of industrial jobs a very important issue in their cities. No other issue approaches this level of magnitude. Given that the respondents to the survey are mayors of variously sized cities, from across the nation, with differently configured economic bases, and experiencing different levels of distress, it is noteworthy that this single issue could so dominate the findings.

The only other issue that is very important to at least one-quarter of the mayors is neighborhood vs. downtown development, a perennial issue in local economic development. For the remaining issues, fewer than one-fifth of the mayors consider any of them very important. Of this group, the four with proportionately higher "very important" totals are: competing suburban development, the disappearing middle class, burdensome city taxes, and

uncontrolled growth. The issues with comparatively lower proportions of "very important" responses are: uneven benefits of economic development across social classes, residents' lack of employable skills, poor quality city services, and lack of attractive residential areas.

These issues do not occur in a vacuum. They are related to objective city conditions like population size, region, distress, and economic base. Comparing the mayors' "very important" responses for each of the issues will lead to a determination of the kinds of cities that are most affected.

The loss of industrial jobs is overwhelmingly important in three regions: the Mid-Atlantic (71% label it "very important"), the East North Central (61%), and the East South Central (56%). These regions have been hard hit by the national economic transformation. Similarly high figures characterize distressed cities and cities with manufacturing based economies. The breadth of agreement underscores the depth of the problem. Cities of all population sizes in these regions and with this type of economy share the concern.

The neighborhood-downtown development conflict is an issue that goes to the heart of economic development distributional decisions. At issue is whether the city will concentrate its efforts on the central business district or diffuse them. Neighborhood versus downtown development tends to be a big city issue more so than a small city matter. This may be related to the heterogeneous nature of large cities. The neighborhood versus downtown development issue is more prevalent in West South Central and South Atlantic cities, in cities with medium levels of distress, and in service economy cities.

Competing suburban development is, as expected, an important concern to mayors of large cities. It is a more powerful issue in the Mid-Atlantic and East South Central cities (46% and 38%, respectively label it "very important"), in the most distressed cities (41%), and in cities with service economies (38%) than elsewhere. Competing suburban development can be especially debilitating to both central city and suburban jurisdictions because it shifts the focus from area-wide economic improvement to narrow, jurisdictional battles. It absorbs resources in an inefficient manner.

The disappearance of the middle class, a group typically considered the bedrock of American communities, is an issue of similar importance in cities of all sizes. For example, 17% of the mayors in cities with populations below 50,000 consider it a very important

issue, 18% of the mayors of 200,000+ population cities find it very important. The out-migration of the middle class is a very important concern to cities in the Mid-Atlantic and New England regions, but comparatively less so in the West South Central and the Mountain cities. Distressed cities and cities with manufacturing based economies are more hampered by a disappearing middle class than are nondistressed or service and retail cities.

Burdensome city taxes is not an issue that belongs to any particular city size grouping. Region, level of distress, and economic structure reveal some patterns. The issue of burdensome city taxes emerges in some Mid-Atlantic and New England cities, in cities experiencing higher distress, and in cities with manufacturing economies. The relationship of tax burden to the local economy and to distress is difficult to sort out; however, they are indubitably intertwined.

Uncontrolled growth is a problem some cities would envy; others would gladly trade. It is distinctly different from the issues already discussed. For example, it tends to be less important to large cities than to their smaller counterparts. Uncontrolled growth is very important in New England and Pacific area cities, in low distress cities, and in service economy cities.

The uneven benefits of economic development across social classes reveals an interesting pattern of importance. Over 27% of the mayors of large cities identify it as a very important issue, compared to 3% of the mayors of small cities. Clearly, a city's size is related to the importance of this distributional equity issues. Region matters as well. Cities in the West South Central (25%) and New England (24%) regions consider it very important while cities in the Pacific (3%) and Mountain (0%) states do not. The importance of this issue tends to be associated with higher levels of distress and service-based economies, but it is not as clearcut as with size and region.

Residents' lack of employable skills is of some importance to West North Central cities, and of tremendous importance to highly distressed cities. The mismatch of skills to available jobs has triggered a spate of employee retraining programs. The issue cannot be considered a function of city size or, surprisingly, economic structure. Manufacturing, service, and government-based economies have virtually identical (and average) "very important" percentages. The one economic category at odds with the rest is retail cities.

Not one mayor of a retail city considers residents' lack of employable skills a very important issue.

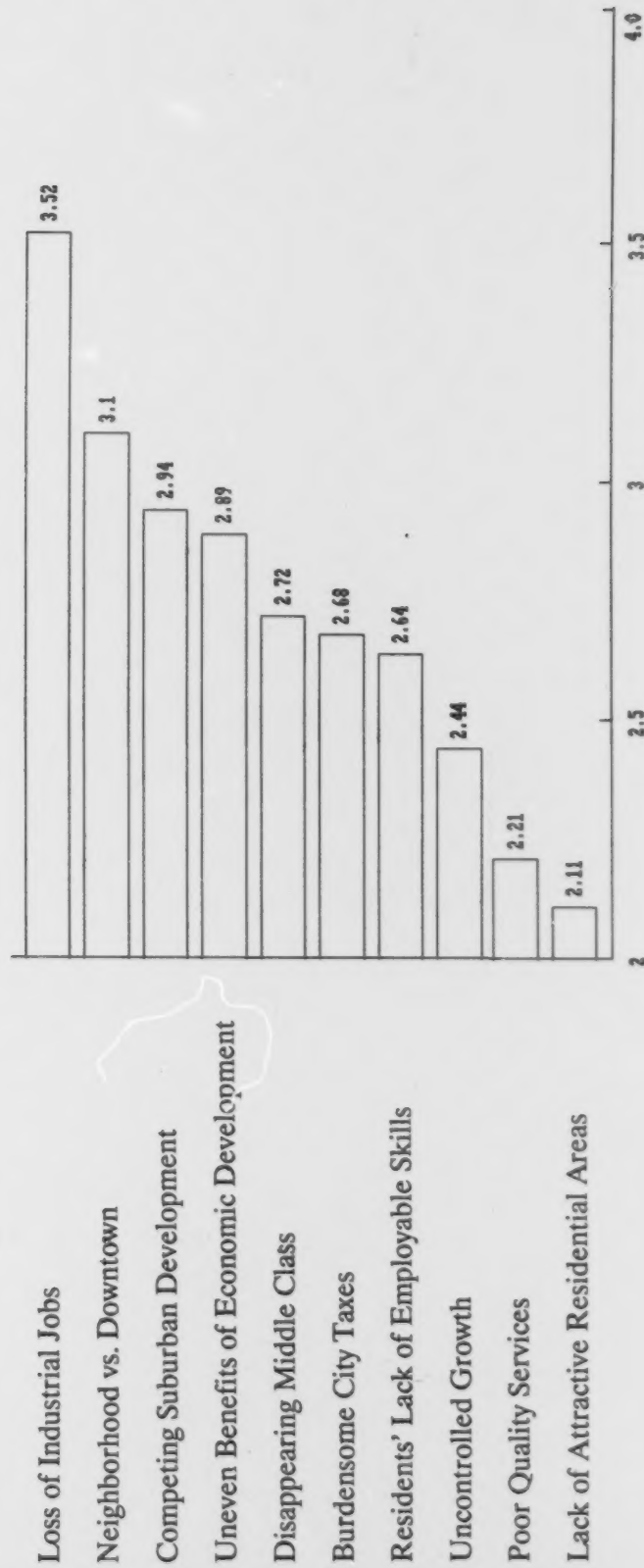
Poor quality city services is a problem that does not plague the cities in this survey. Over two-thirds of the mayors consider it less than moderately important. In examining the distribution of the percentages, there appears to be no significant pattern regarding city size, region, level of distress, or economic structure.

Lack of attractive residential areas is essentially a nonissue in the surveyed cities. Population size, region, and distress levels do not differentiate the cities. The only types of cities where lack of attractive residential areas begins to cast a shadow is in manufacturing cities.

The preceding analysis concentrated on the cities that labeled the issues "very important." Another way of examining the relative importance of one issue versus another is to treat importance as a scale and assign values (from 1 for "not important" to 5 for "very" important) accordingly. This has the effect of combining the percentages into one comparable figure. When that is done, an "importance average" can be calculated for each of the issues. The results are displayed in Figure 2-1.

Figure 2-1 presents a hierarchy of economic development issues. Loss of industrial jobs prevails, followed, at a distance, by neighborhood vs. downtown development and concern over competing suburban development. The uneven benefits of economic development across social classes turns out to be of greater importance than the previous analysis limited to the "very important" percentages indicated. The comparatively high level of concern reflects, perhaps, the definitional expansion of "economic development" referred to earlier. The disappearing middle class, burdensome city taxes, and residents' lack of employable skills make up another bundle of comparably important issues. Uncontrolled growth, poor quality city services, and lack of attractive residential areas are clearly minor concerns.

Figure 2 - 1 Issue Importance Averages



(4) The Relationship of Issues to Goals

The four issues of greatest concern (loss of industrial jobs, neighborhood versus downtown development, competing suburban development, and the uneven benefits of economic development across social classes) should be linked to the goals identified in an earlier section of the chapter. To determine whether there is the anticipated congruence between critical issues and goal choice, a cross-tabulation of the top four issues with the top four goals (increasing employment opportunities, improving the city's tax base, retaining jobs and business, and achieving balanced, quality growth) was conducted. The findings, discussed below, are illuminating.

Cities that consider the loss of industrial jobs a very important issue are seeking to increase employment opportunities, retain jobs and business, and improve the tax base. Cities where the neighborhood versus downtown development issue is very important, also target increased employment opportunities and an improved tax base, but they favor achieving balanced, quality growth over firm retention strategies.

A similar pattern separates cities where competing suburban development is a critical issue from cities concerned about distributional equity. Cities facing suburban competition behave just like the cities that are facing the loss of industrial jobs. They seek to increase employment opportunities, improve the tax base, and retain jobs and businesses. In cities where the uneven benefits of economic development across social classes is a very important issue, the goals, like cities in which neighborhood versus downtown development is a critical issue, include increasing employment opportunities, achieving balanced, quality growth, and improving the tax base.

The solutions to the four critical problems are remarkably similar: increase employment and improve the tax base. However, they are not identical. In cities where industrial job loss is a central issue and in cities where suburban competition is critical, the two goals are complemented by a focus on jobs and business retention. In cities concerned about neighborhood - downtown development conflict and cities where the distribution of benefits across social classes is paramount, the retention goal recedes and achieving balanced, quality growth emerges. This variation suggests that underneath the universally preferred solutions, different issue contexts produce fundamentally different orientations to economic development.

CHAPTER 3

LOCAL ECONOMIC DEVELOPMENT IN AN INTERGOVERNMENTAL CONTEXT

Economic development enmeshes cities in two fundamentally different relationships. One is obvious: the city's government becomes involved with the private sector. The other is less obvious but no less significant: the city's connection with other governmental entities. Both types of relationships are the result of the porous nature of cities. Cities are not walled, impenetrable fortresses. Powerful external forces seep in. This, then, is the context in which city economic development occurs.

This porosity can be most easily visualized in terms of space, or territory. City governments control a bounded area -- a territory with tangible limits. While their actual sphere of influence might be greater, their legal control extends throughout, but not beyond, their locationally distinct space. Capital is not subject to the same kinds of constraints. It is virtually unbounded. Therefore, in their dealings with the private sector, territorially-limited city governments operate at a disadvantage.

This territory, however, is not the local jurisdiction's alone. There is a legal porosity to cities as well. Enactments of other (typically referred to as "higher") levels of government often have very localized impacts. Actions by the national government, even those as indirect as changes in defense spending, affect local governments. State government policy decisions have an even greater impact. When state governments open their borders to out-of-state banks, the impact is felt most dramatically in communities. Locally-owned banks are bought out; new branches open; old ones close; reconstituted loan committees make decisions about community investments; and so on. Federal and state policy decisions reverberate across the local landscape.

Even enactments of other local governments leak into the jurisdiction. For example, when an adjacent city adopts an ordinance that effectively zones "adult" bookstores out of existence, the effect is often felt by the surrounding jurisdictions to which the enterprises flee. Or when a county creates an industrial park and offers space at preferential rates, a city may feel the effect of industry departing to the unincorporated territory.

Thus, city governments operate amid a tangled web of relationships created by the interaction of capitalism and federalism. City governments are at the nexus because, ultimately, all economic development is local.

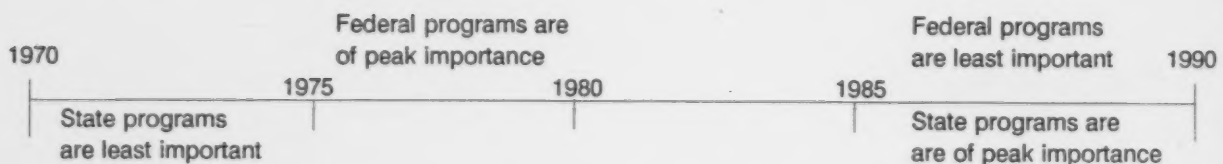
This chapter explores the economic development relationships of cities with other governments. Relevant data from the National League of Cities' survey of city economic development professionals are used to elucidate the intergovernmental dimension of local economic development. A total of 322 cities responded to the survey. (Appendix A contains a description of the research design, and Appendix B lists the responding cities.)

(1) Evolving Federalism

The 1980s have been characterized by a shifting of responsibilities within the federal system. To visualize economic development effort as a pie and the three levels of governments as pieces of it, the federal piece shrank during the 1980s while those of the state and local governments increased. Some of this shift has been generated by the shedding of functions by the federal government; some comes as a result of aggressive moves by subnational government into policy vacuums. There are many more government-sponsored economic development activities occurring, and they are occurring at a greater rate than ever before. Local economic development is not what it used to be.

The NLC survey of city economic development professionals documents this shift in the importance of federal and state governments. Respondents were given a time line stretching from 1970 to 1995 and were asked to identify the peaks and valleys in federal and state support for local economic development. The national-state shift is displayed in Figure 3-1.

Figure 3-1 : Federal and State Timeline



Federal economic development-related programs have been important to cities for a long time, but the period from 1975 to 1980 was the halcyon one. During that time, federal programs peaked in terms of their importance to a city's achievement of economic development goals. In the mid-1980s, federal programs have been eclipsed. Since 1985, city economic development professionals have found federal programs to be at their lowest level of importance. These points are developed in the section immediately following.

For state programs, the trend is reversed. During the 1970 to 1975 period, state programs did not play a substantial role in cities' achievement of economic development goals. The time for state programs has arrived, however. Since 1985, state programs have emerged and are predicted to continue their prominence into the 1990s. While much of this is due to the withdrawal of the federal government from the policy arena, it is not solely a function of state governments responding to the resultant void. Much of the increased state activity represents independent, indigenous policy initiatives. This issue is discussed in depth later in this chapter.

(2) The National Government

Since 1980, the federal government's interest in the economy has focused on the enhancement of productivity, national economic growth, and global market shares. To a great extent, this interest has come at the expense of programs directly targeted to community and economic development. During this period, cities have experienced federal funding cuts of tremendous magnitude despite overall increases in federal spending. The phrase "massive disinvestment from America's cities and towns" has been used to describe the budget proposals of the Reagan Administration. In the name of deficit reduction, Congress has acquiesced. Economic development-related programs have been especially hard hit. The Administration's long-term budget plans included substantial reductions in the Community Development Block Grant (CDBG) program and the actual termination of the Urban Development Action Grant (UDAG) and the Economic Development Administration (EDA) programs. In addition, a full complement of housing, infrastructure, and job training programs were slated for removal. The cases of CDBG and UDAG are instructive.

In 1974, the Community Development Block Grant program consolidated several categorical federal assistance programs, including Model Cities and Urban Renewal, into a single block grant program. The goal of CDBG is to reverse the decline and deterioration -- physical,

economic, and social -- of American communities. The process allows cities to identify priorities, within allowable CDBG guidelines, and devise their own solutions. With the federal funding, cities rehabilitate housing, revitalize commercial districts, and build public facilities. The success stories are legion. But the achievement of immediate program objectives and the generation of additional private investment have not spared CDBG from the budget-cutters' axe.

The Urban Development Action Grant program was intended to provide "gap financing" for commercial, residential, or industrial development projects in distressed areas. UDAGs are used when an investor is poised to commence a project but faces an obstacle such as high land costs or lack of infrastructure at the project site. The UDAG funds fill the gap and make the project go. The success of UDAG is measured in its "leverage ratio," that is, the amount of private investment that is stimulated by the UDAG dollars. From its inception in 1977 through 1986, the leverage ratio for UDAG was estimated to be \$6; that is, for every \$1 of public funds invested in UDAG project, another \$6 in private money was generated. Over the long haul, these projects translate into employment opportunities, a revitalized cityscape, and increased tax revenues.

City officials have claimed, and independent analyses have repeatedly demonstrated, the critical importance of these programs in pulling many communities out of a spiraling decline. And, even in communities with relatively healthy economies, the funding has been instrumental in arresting the deterioration of "pockets of poverty." The infusion of federal dollars often has the effect of getting the local economy moving. CDBG funding and UDAGs tend to promote confidence in a community as a place for investment. They have come to symbolize the federal government's commitment to America's cities and towns. Their diminution suggests the reverse.

Thus, the period of the 1980s has been a rocky one for American cities. Federal fund cutbacks coupled with the interposition of state government in what had been a direct relationship between cities and the national government has altered the local economic development environment.

In the eyes of local officials most knowledgeable about economic development, federal program changes and funding cuts effectively blunt the local economic development effort. The NLC survey asked economic development professionals to gauge the effect of federal

policy changes on their city's ability to achieve its economic development goals. The effect is, in a word, negative. Table 3-1 presents a list of the program changes and the distribution of the responses.

Table 3 - 1 Effect of Federal Policy Changes

	<u>Very Negative Effect</u>	<u>Negative Effect</u>	<u>Neutral Effect</u>	<u>Positive Effect</u>	<u>Very Positive Effect</u>
Cuts in UDAG, EDA, CDBG Programs	61.6	24.1	9.4	1.3	3.8
Increased Restrictions on IDBs	52.4	30.4	11.9	1.6	3.8
Loss of General Revenue Sharing	44.4	27.6	23.5	1.0	3.5
Cuts in Highway and Transit Funds	41.7	41.1	11.8	2.2	3.2
Changes in Tax Laws for Business	16.9	44.0	31.6	4.6	2.9
Changes in Waste Water Treatment Policy	15.6	35.0	42.9	4.1	2.4
Stricter Toxic Waste Laws	4.3	18.8	60.7	12.5	3.6
Change from CETA to JTPA	2.7	12.7	56.7	18.7	9.3

According to economic development professionals, the federal program changes that deal the most devastating blow to city economic development efforts are the cuts in UDAG, CDBG, and Economic Development Administration (EDA) programs. Sixty-two percent of the respondents assess the effect as very negative while another 24% consider it negative. Virtually nine out of ten city officials indicate that the cuts will have a negative or worse effect on their economic development programs.

Two other program changes will hit the cities hard: increased restrictions on industrial development bonds and cuts in highway and transit funds. In both cases, 83% of the respondents evaluate the changes as negative or very negative. This is not surprising. Industrial development bonds, along with tax increment financing and other debt instruments, have been critical cost reduction components in local economic development programs. Highway and transit funds have provided the necessary capital for development-related infrastructure improvements.

General revenue sharing was an important financial shot in the arm to cities. The termination of the program is expected to produce disagreeable side-effects in almost

three-quarters of the cities. Almost equally as threatening are the changes in the tax laws for business. More than 60% of the cities anticipate negative or very negative consequences from their enactment.

These five federal program changes pose the greatest danger to cities. The other three changes tend to be less threatening. More than 40% of the cities characterize their impact as neutral. The sentiment expressed toward changes in wastewater treatment policy are only slightly more negative than neutral. Generally, stricter toxic waste laws and the move from the Comprehensive Employment and Training Act (CETA) to the Job Training Partnership Act, have had a minimal impact on city economic development. For these two changes, positive and negative sentiment is roughly equal.

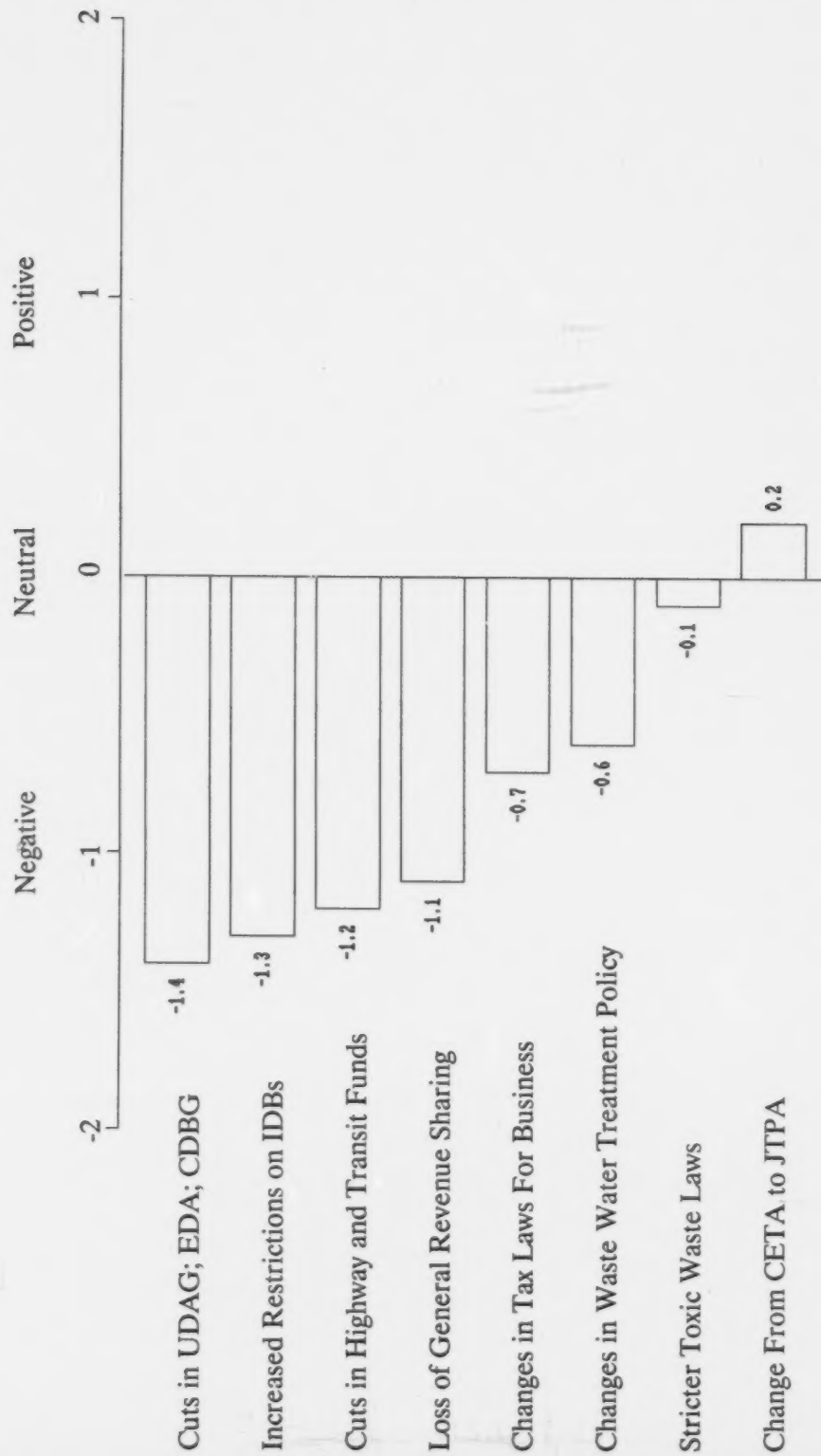
The national government remains involved in local economic development. The nature of the involvement is changing, and, according to knowledgeable city officials, the bulk of the change is negative. If percentages corresponding to the federal program changes are reconfigured as points on a scale (from -2 for very negative to +2 for very positive), the negative nature of the changes becomes clearer. The resultant graph is Figure 3-2.

Neo-conservative observers contend that the unfettered functioning of the marketplace will produce efficient economic development. Artificial (government) stimulation of a stagnant economy diverts resources from more efficient uses, they argue. Public subsidies such as UDAG are simply "urban slush funds" that redistribute investment and jobs to politically powerful cities at the expense of other jurisdictions. Economic development officials, for the most part, see the issues far differently. To them, UDAGs and related federal programs are very important for achieving local economic development goals.

(3) State Governments

State governments have made quantum leaps since the not-so-distant era in which they were roundly lambasted as the "fallen arches" of government, or the "weak sisters" of the federal system. A rash of institutional reforms has resulted in better performance. On average, state government capacity, i.e., its ability to anticipate and influence change, to make informed policy decisions, and to design programs to implement policy, has vastly improved.

Figure 3 - 2
Comparison of Positive and Negative Assessments
Regarding Federal Program Changes



State governments set the "rules of the game" for economic development within their territory. At the most fundamental level, state constitutional provisions create the legal relationship between the state and its jurisdictions. And, through their regulatory powers, public services, and taxing and spending decisions, states design their relationships with the private sector. The cumulative effect produces the setting in which local economic development takes place. The efforts of cities to improve their local economies do not occur on an empty stage. The props are already there. It is up to the cities to work with them.

But some of the props facilitate the cities' job; others hinder it. City economic development professionals are quite clear about which is which. In the NLC survey, they were asked to assess the impact of specific state policies on economic development. The results appear in Table 3-2.

Table 3 - 2 Effect of State Policies

	<u>Very Negative Effect</u>	<u>Negative Effect</u>	<u>Neutral Effect</u>	<u>Positive Effect</u>	<u>Very Positive Effect</u>
State Annexation Laws	17.6	12.4	52.3	8.5	9.2
State Tax Policies	14.1	27.7	24.4	23.2	10.6
State Regulatory Policies	8.2	27.3	45.7	13.2	5.6
State Grant of Municipal Fiscal Authority	6.5	10.3	35.1	27.8	20.3
State Policy on Financial Institutions	4.6	10.9	54.3	23.0	7.2
State Grant of Municipal Home Rule	4.5	5.6	29.3	22.3	38.3
State Government Leadership	3.9	12.9	29.4	34.8	19.0

City economic development professionals evaluate few state policies negatively. Three state policies that have negative impacts on economic development in 25% or more of the cities are tax policies, regulatory policies, and annexation laws. This negative evaluation is mitigated, however, by the combined percentage of positive responses for tax policies (34%) and neutral policies for annexation laws (52%), and regulatory policies (46%).

Focusing on the two positive columns in Table 3-2, it is evident that home rule is the state policy with the most positive impact on city economic development. Over 60% of the

cities indicate a positive or very positive effect. Without home rule, cities would lack the ability to design their own economic development strategies. The other area in which majority sentiment falls in the positive categories is state government leadership. Confirming the argument posited earlier, cities are not oblivious to the significant role state government plays in setting the economic development stage.

Municipal fiscal authority is the only other policy where the combined positive responses substantially outdistance the combined negative responses (48% to 17%). State policy on financial institutions is positive as well but much more modestly. In fact, in a majority of cities, it reportedly has no effect on economic development.

Assigning values (-2 to +2) to the five categories ranging from very negative to very positive offers an alternative method for assessing the comparative impact of the different policies. Assembling those data into a graph produces Figure 3-3.

The positive side dominates the negative side; thus, it is important to reiterate the generally positive effect of state policies on local economic development. Comparing Figure 3-3 to Figure 3-2 (the graph reflecting the impact of federal program changes) illustrates, rather dramatically, the challenging intergovernmental context in which cities operate.

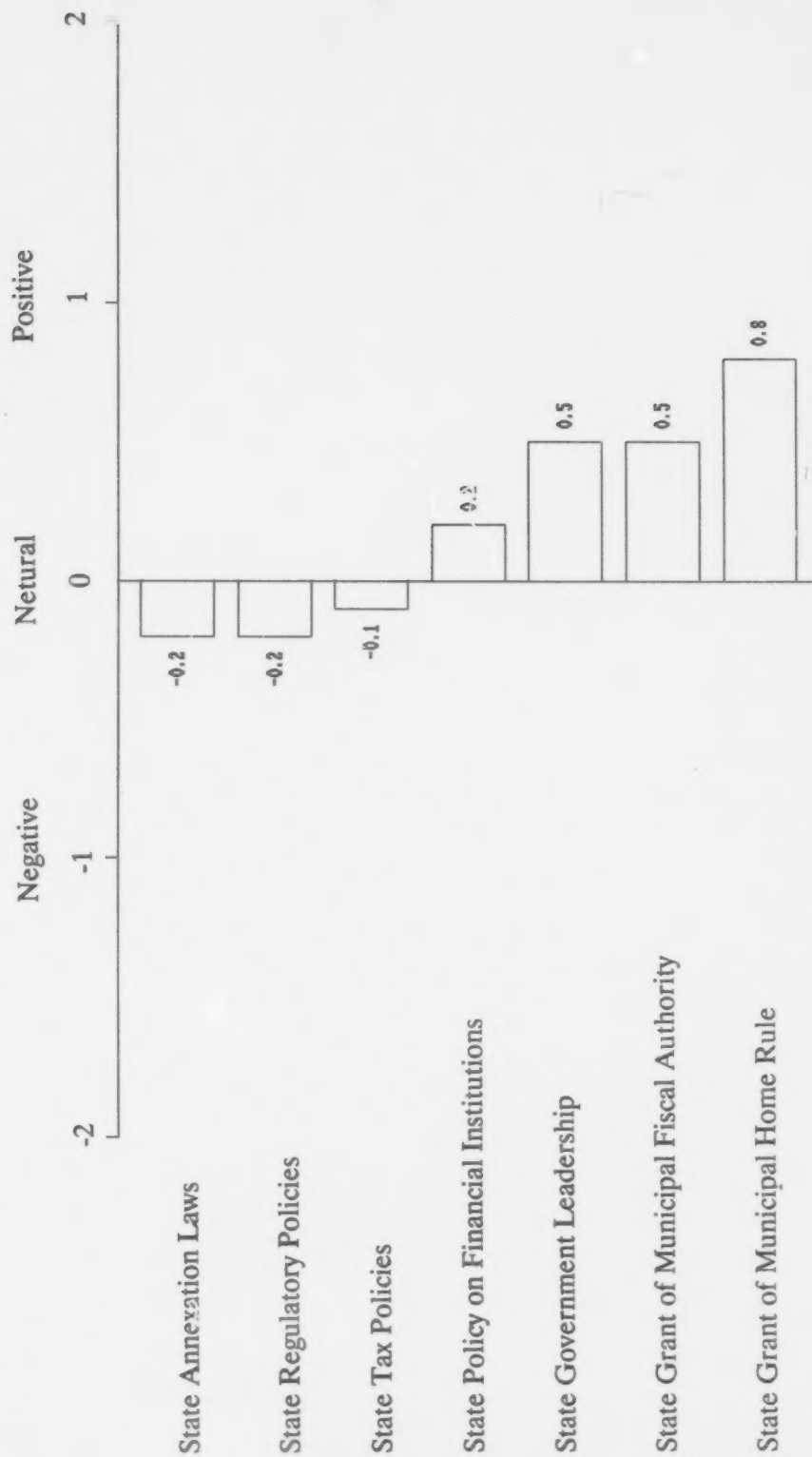
As the time line in Figure 3-1 indicated, state governments are emerging from the economic development shadows. A recent National Governors' Association study found that states are engaged in three types of activities: creating an environment for growth, promoting the state and its products, and intervening in the marketplace. States enact programs designed to improve their business climates, to advertise the state, and to boost existing and spark new enterprise. And they are engaged in these activities strategically, the result of both the political process and rational planning.

These economic development-related activities are appropriate for state governments given their traditional role as laboratories for innovation. In other words, states experiment. They can try new approaches, modify existing ones, and learn from each others' successes and failures. States have adequate legal and financial power to back up their actions.

As the Committee for Economic Development noted, state government approaches to economic development have evolved since the industrial recruitment era of the 1930s to

Figure 3 -3

Comparison of Positive and Negative Assessments
Regarding State Policy



1950s. According to these top business leaders, the 1960s period focus on equity gave way to an economic revitalization emphasis in the 1970s. Currently, state governments are focusing on "generative development" which conceives of the economic development process as wealth creation and entrepreneurialism.

Unquestionably, both the nature and the degree of state activity have increased. The point of impact remains local, however. It is a state's communities that feel the effect of state actions. The NLC survey probed the degree to which state actions are useful to city economic development. The evaluations of the economic development professionals appear in Table 3-3.

Table 3 - 3 Usefulness of State Programs

	<u>Very Useful</u>	<u>Between Very & Moderately Useful</u>	<u>Moderately Useful</u>	<u>Between Moderately & Not Useful</u>	<u>Not Useful</u>
Infrastructure Improvements	34.3	32.5	21.8	7.6	3.8
Low Interest Loan Programs	30.1	22.2	25.2	12.4	10.2
Education Improvements	28.5	29.6	26.1	10.0	5.8
State University Facilities	28.3	28.3	25.0	10.9	7.6
Job Training	26.8	23.7	32.5	11.5	5.4
Industrial Development Authorities	25.4	22.8	28.3	13.6	9.9
Tax Base Sharing	23.4	15.8	25.1	15.2	20.5
Industrial Recruitment	20.7	27.8	31.8	11.0	8.7
Small Business Technical Assistance	20.4	19.6	38.2	16.4	5.4
Enterprise Zones	20.3	14.9	22.4	15.8	26.6
Venture Capital Programs	15.5	17.6	31.6	19.2	16.1
Small Business Incubators	14.4	20.9	32.1	23.7	8.8
Technology Development	13.5	20.4	36.0	20.0	10.2
Export Promotion	9.7	11.1	40.6	22.9	15.6

According to city economic development professionals, improving the infrastructure is the most useful kind of assistance a state can provide. State government should enhance basic facilities: transportation systems, water quality and supply, waste management, and energy distribution. Without them, even the most innovative local development effort will be stymied.

Another form of state assistance that cities find very useful is low interest loan programs. These financial incentives are important to cities in their business retention and expansion efforts and in their business attraction programs. Low interest loans make below-market funding available and are a type of gap financing mechanism. Cities have found them especially important in their encouragement of small business development, minority business development, and community development corporations.

One cluster of state programs of great utility to cities involves education and training. State university facilities, education improvements, and job training appear at the top of the usefulness list in the survey. Not only do state universities serve the always important education mission, they are increasingly devoting resources and energies to the research and community service functions. Thus, they can benefit a city by developing human resources, by exploring technological frontiers, and by delivering assistance to local business. Other useful programs -- improving the primary and secondary school system and offering job training/retraining -- represent a state investment in human capital. Comprehensive educational and training programs of high quality are tangible indications of a state's commitment to the human resources aspect of economic development.

Despite the generalized shift of the American economy away from industry, cities continue to find industrial development authorities and industrial recruitment programs quite useful. In another National League of Cities survey, mayors indicated that the most critical economic development issue in American cities is the loss of industrial jobs. Programs that focus on industry are less the capstone of state efforts currently, but they remain a strong focus.

The response patterns regarding tax base sharing are more difficult to interpret. While almost 40% consider it more than moderately useful, 36% find it less than moderately useful. Some of this polarization may be attributed to inconsistencies in definition. To some, any sort of state-operated redistribution program is tax base sharing; to others, the term may be reserved more specifically for the sharing of revenues from development projects.

The only other state program that cities find particularly useful is small business technical assistance. Through these programs, small business information centers are created, and

technical assistance such as planning, financial management, and marketing is provided. Insofar as cities consider entrepreneurialism a key to economic vitality, support of small business is important.

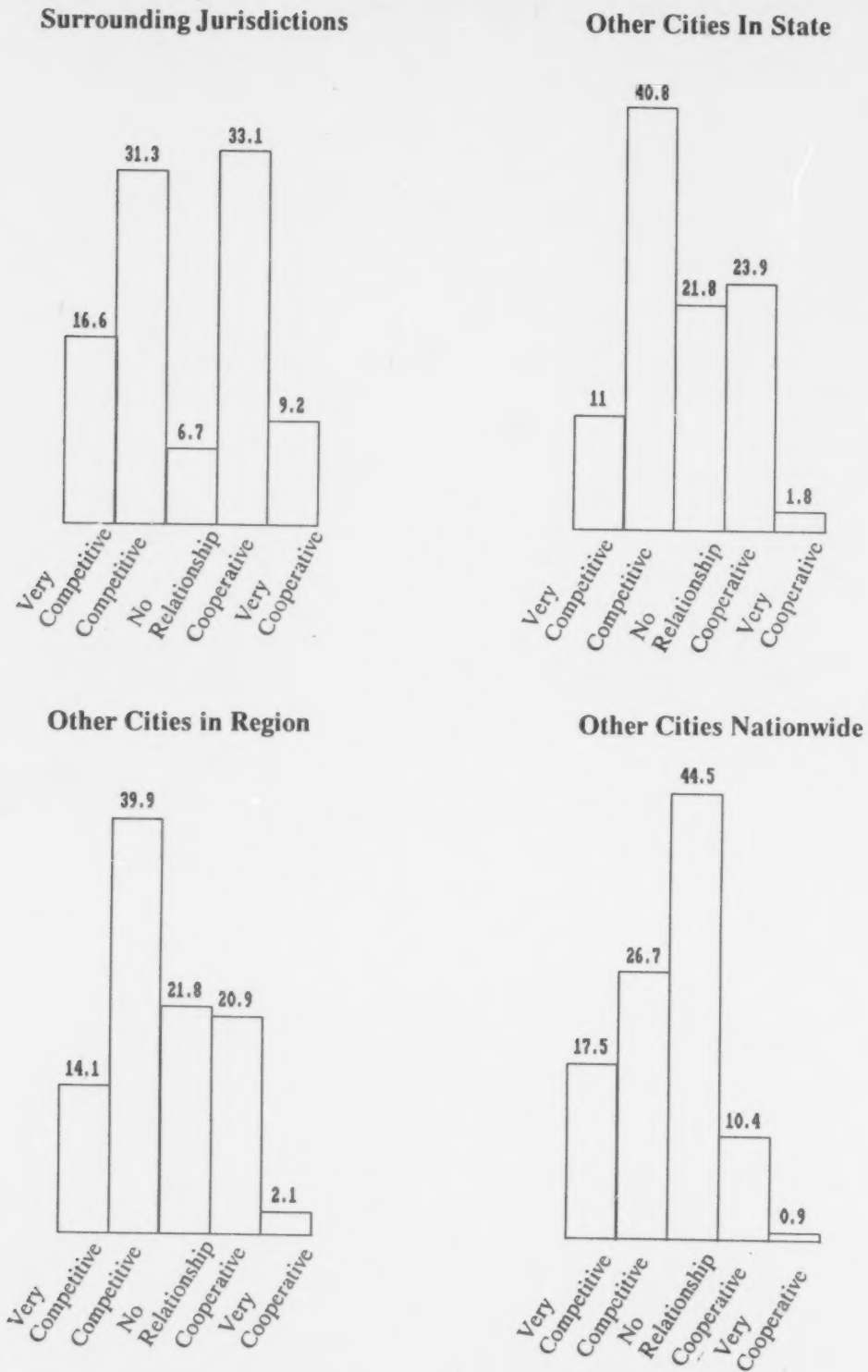
In the state programs considered thus far, forty percent of the economic development professionals responding on behalf of their cities found them more than moderately useful. Some of the newer, (so-called) cutting edge economic development programs are not as widely acclaimed. These include enterprise zones, technology development, small business incubators, venture capital programs, and export promotion. Some of the reported low utility may be attributed to unfamiliarity. Some of these programs, such as enterprise zones, small business incubators, and technology development, are typically limited to a targeted area within a state. Others, such as venture capital funds and export promotion programs are often small scale operations. It is likely that as these programs expand, the evaluation of their utility will increase.

It appears that what cities are saying to the states is this: We need high quality infrastructure, a work force educated and trained for the economy of tomorrow, and some sort of financial breaks to achieve our economic development goals. The state assistance that economic development professionals find especially useful fits into the "create an environment for growth" approach rather than direct market intervention.

(4) Interlocal Relationships

When locationally distinct jurisdictions desire the same general outcome from the economic system, their behavior can range from cooperative to competitive. Jurisdictions are likely to cooperate in pursuit of goals from which each can derive benefits. However, when the benefits are not shared across jurisdictions, the rationale for cooperation diminishes and the probability of competition increases. In the end, jurisdictions are self-interested entities, and when rewards are confined to a single jurisdiction, competition is inevitable.

To explore intercity economic development relationships, the NLC survey asked economic development professionals to assess the existing mix of competition and cooperation. Four different types of relationships were posited: relations with surrounding jurisdictions, and relations with other cities in the state, region, and nation. The results are displayed in Figure 3-4.

Figure 3 - 4 Relationships With Other Local Jurisdictions

*Numbers don't sum to 100% because of the exclusion of the few cases in which both competitive relationships and cooperative relationships were indicated

Cities evince very problematic relationships with their surrounding jurisdictions regarding economic development. Over 47% reportedly tend toward competition while another 42% tend toward cooperation. Conditions are very different in these two settings. The former are likely dominated by a "beggar thy neighbor" approach to economic development while the latter are more likely to have instituted areawide economic development approaches.

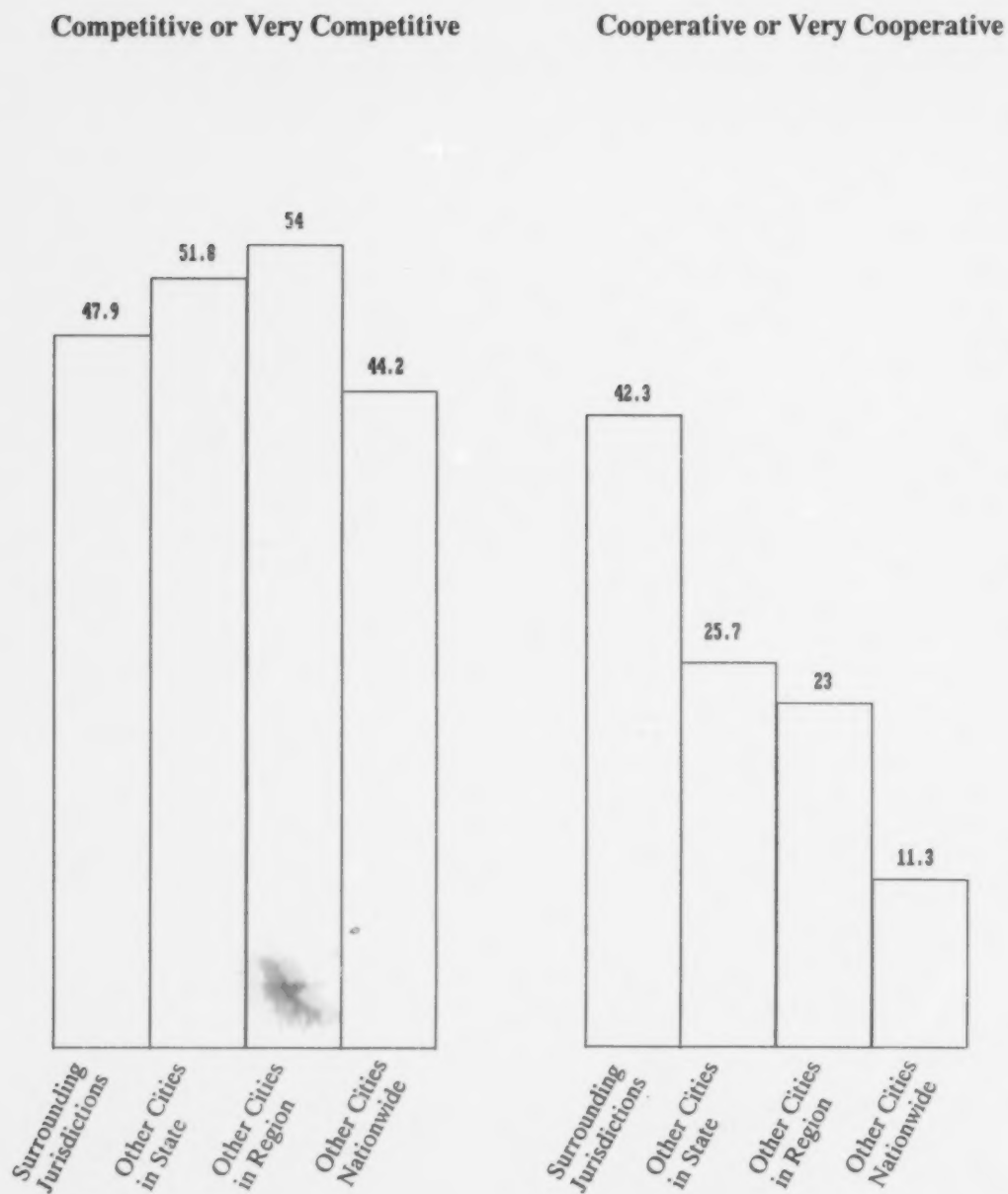
Intrastate competition is fairly high (52% in the two competition categories). This implies behaviors such as the monitoring of the economic development actions of competitors and the emulation of successful actions. Competition can move from healthy to destructive rather quickly. Within a state, a certain volatility exists, but for about one-quarter of the cities, the relationships are reportedly cooperative. About one-fifth indicate that no economic development relationship exists between themselves and other cities in the state.

Within a region, competition is the dominant mode. Fifty-four percent of the respondents consider intraregional relationships competitive. The same kinds of behaviors that occur within a state are spread across a larger territory. One important difference, however, is that various state contexts effectively give one set of cities a competitive advantage over others. For example, cities that have, in their assessment, positive annexation laws have an advantage over cities located in states where annexation statutes have a negative effect. As with the intrastate relationships, approximately one-quarter report cooperative relationships, one-fifth no relationship.

For the most part, cities do not have economic development relationships with other cities across the country. Fully 45% of the cities indicated that absence. But when there is a relationship, and for the most part this occurs among larger cities, the relationship is likely to be competitive.

These findings suggest that economic development is widely perceived to be a competitive endeavor. Figure 3-5 compares the strength of the competition and cooperation perceptions across the four types of relationships.

Competition dominates the economic development environment regardless of situation. It is highest in regional settings and lowest in national relationships, but the difference is minimal. Cooperative behavior, on the other hand, shows widely varying patterns. With surrounding jurisdictions, substantial cooperation exists. However, cooperation drops

Figure 3 - 5 Comparison of Competitive and Cooperative Assessment

precipitously as the economic development arena expands. The least cooperation is found among cities nationwide. This suggests that interlocal cooperation in pursuit of an abstraction such as a stronger national position in the global economy will not be a naturally occurring phenomenon.

CHAPTER 4

INSIDE THE ECONOMIC DEVELOPMENT PROCESS

At the local level, economic development is played out in terms of the various roles involved in the process, organizational actors filling these roles and the rewards reaped from the process. The 1987 National League of Cities' survey of economic development professionals explored the economic development process by asking about organizations, actors and their roles, and beneficiaries. Looking within and across these three overlapping subsets will inform the larger discussion of local economic development policy.

(1) The Organizations

In a typical city, there are three types of organizations involved in economic development: a city agency, the local Chamber of Commerce, and a public-private entity. They do not do the same things, neither do they necessarily work in concert with one another. They vary in structure and in clout. City agencies and Chambers are the traditional organizational units in local economic development; public-private organizations, with their orientation toward sectoral partnerships, are more a contemporary phenomenon.

The city agency, often called an economic development department or division, is a governmental entity with a city-wide focus. Its place within the city government organization varies. In some cities it operates alongside the planning, community development, and employment and training departments. Other cities have created a consolidated structure in which the economic development department absorbs these functions. In council-manager cities, it can be organized under the manager's auspices. In mayor-council cities it may be attached to the mayor's office. In some cases, a board or commission appointed by elected officials advises or supervises the economic development unit.

According to economic development professionals, most city economic development agencies have a multifaceted orientation. They are involved in development negotiations and project implementation as well as promotional and marketing activities. Given the city's eminent domain authority and its power to sell tax-exempt revenue bonds, the capacity of city

agencies can be quite broad. In a growing number of cities, the economic development agency, often through a subsidiary organization, is empowered to hold an equity position in projects. City agencies typically rely heavily on city revenues for their funding, but federal funds and revolving loan funds have become important secondary sources. An additional revenue source, pay-backs from projects, is likely to become more significant as cities expand their venture capital approaches to economic development.

The Chamber of Commerce, a nongovernmental entity, often has a metropolitan area focus. Chambers tend to have a promotional, marketing orientation to economic development. In some communities, the interactive relationship between the Chamber and city government has given way to a Chamber-dominated economic development effort. In these settings, city governments have opted for a secondary role.

The new organizational player in economic development is the public-private organization. It is often called an "economic development corporation." Its creation signifies an effort by the public and private sectors to adopt mutually supportive behaviors. The genesis of this organizational unit occurred during the urban renewal programs of the 1950s. The latest incarnations of the public-private organization differ from earlier versions in that there is much greater bending and blending of behaviors. No longer does the city simply acquire and clear land and wait for the private sector to develop it. City governments have learned from the vacant lots of the past and have begun to act as developers themselves. For many cities, the justification for public-private organizations is simply that they succeed in facilitating the economic development process. These organizations enjoy the best of both worlds: public authority and private initiative.

Given the existence of two conditions noted in previous chapters -- the salience of economic development to local leaders and the disengagement of the federal government from the local development scene -- the flourishing of these public-private organizations should come as no surprise. They are popular for a number of reasons, not the least of which is that they foster the impression of governmental commitment to economic development. Developers desire government policy consistency and formal public-private organizations help reduce policy uncertainty.

Some critics have argued that "partnerships" is a misnomer and what results is a private-sector-driven, anti-democratic, development machine. The primary complaint is that the

organizations institutionalize existing power relationships in the community. The very fact that led to their creation -- their organizational ability to work "deals" -- is the basis of concern. Critics claim that development subsidies are misallocations of scarce governmental resources, that the beneficiaries of the development process are a small group of land and capital based elites, and that the benefits do not "trickle down."

Advocates of partnership respond that economic health is a legitimate governmental goal, and organizational contrivances that facilitate the achievement of economic health are worthwhile. In addition, they argue that creating a pro-development image is essential in attracting and retaining investment capital. And finally, they contend that the benefits of economic development diffuse throughout the community so that even the indirect beneficiaries "win" from a stronger tax base.

City governments do not appear persuaded by criticisms of the partnerships. Economic development is a complicated process of negotiation between the public and private sectors. Consequently, the predominant ethos in the local economic development environment is organizational flexibility. The past year has seen an array of new economic development organizations created. Existing organizations have been restructured and empowered with new functions. New partnerships have been forged. Cities continue to experiment with new organizational ideas, either indigenously spawned or learned from other cities. The search continues for the elusive organizational mix that clicks.

(2) The Actors and their Roles

One popular orientation to local economic development is "dealmaking." There are eleven different actors who plausibly could play a role in making the deal go. In any given situation, the interaction and the prominence of the various actors may shift. The potentially important actors include: the mayor, developers, nonprofit development corporations, neighborhood groups, the Chamber of Commerce, labor union leaders, banks, state officials, the local newspaper, federal officials, and other city agencies. All of these actors, in one way or another, have a stake in the outcome of local projects undertaken in the name of economic development. Given the particular nature of the project, some will be more directly involved than others, but, overall, these actors are the potential members of the local economic development show. While the actors typically share the same goals,

they do not necessarily make the same contribution, relinquish individual objectives, or agree upon the details of a particular deal.

The economic development professionals surveyed were provided a list of nine roles that actors could play in routine or nonroutine development deals. The roles included: initiator, catalyst, investor, fixer, coordinator, scenc-stealer, troublemaker, supporter, and non-player. In every deal, these roles are filled to some degree.

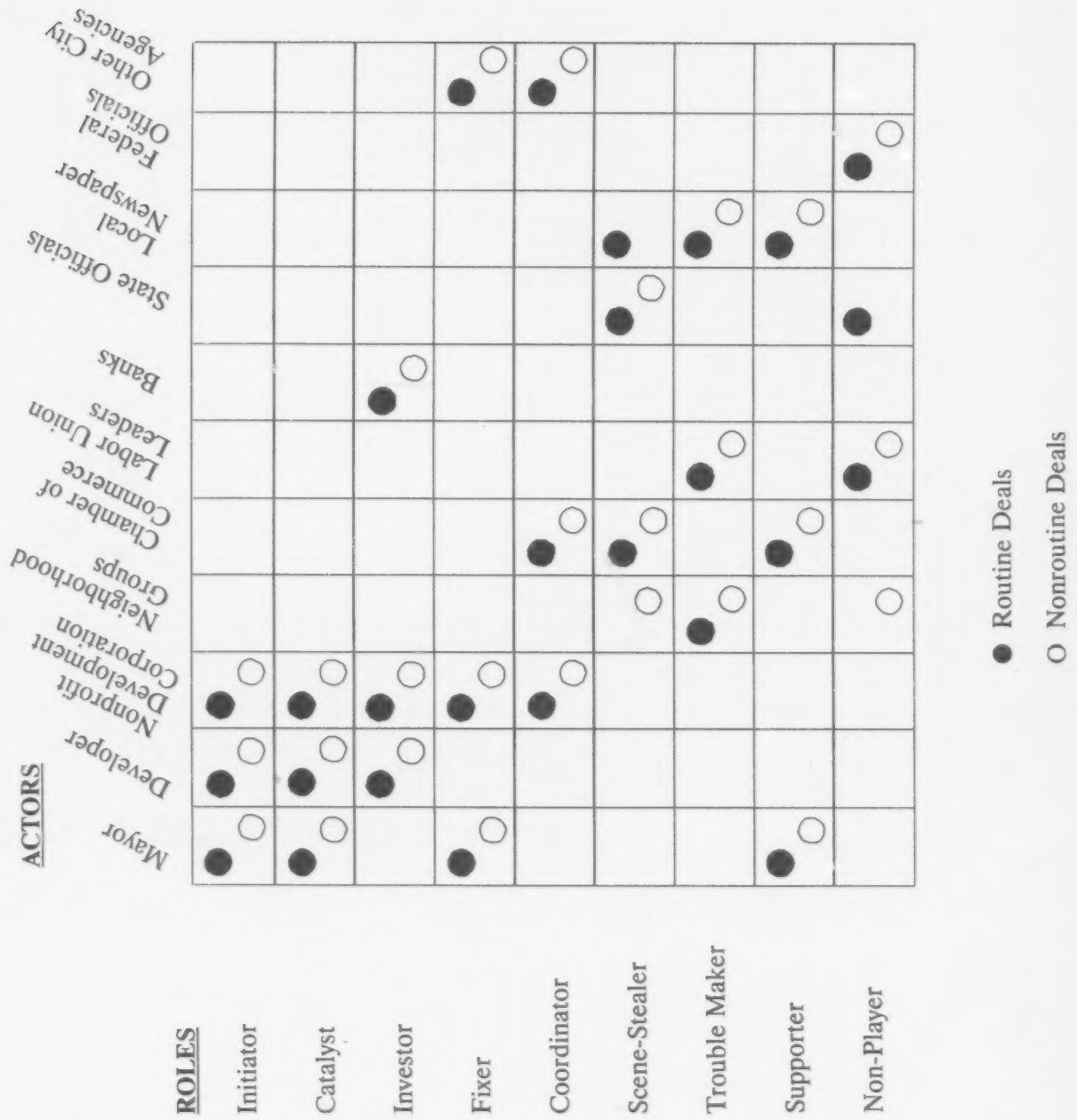
Development projects flourish in a supportive environment, but they are not freely occurring phenomena. They need starters and pushers, funders and smoothers. They inevitably encounter opponents and credit claimants. The difference between routine and nonroutine actors depends on the frequency of occurrence and the magnitude of the endeavor. A deal that involves facade renovation for a neighborhood commerical strip is a relatively routine, low stakes endeavor. The construction of a convention center or the attraction of a major industrial facility occurs less frequently and has longer and larger impacts.

Economic development professionals were asked to match an actor with each of the roles. One actor could play more than one role, and many survey respondents listed more than one actor for some of the roles. Figure 4-1 is based on the survey data. The matrix links the three actors mentioned most frequently with each of the roles.

Regardless of whether it is a routine or nonroutine deal, three actors are said to serve as initiators and catalysts: the mayor, the developer, and the nonprofit development corporation. These are the pivotal actors who get the deal moving. Together they represent a blend of public and private sector actors and further emphasize that a partnership approach to economic development has become commonplace.

Project investors include banks, developers, and nonprofit development corporations. This is the only role, albeit a very important one, in which banks play a prominent part. They are not part of the development team otherwise. Investment in economic development deals continues to be primarily a private sector activity. The inclusion of nonprofit development corporations --often a type of public-private organization -- underscores the increasingly important presence of public dollars in project funding.

Figure 4 -1
The Actors and the Roles in Economic Development Deals



The "fixers," used here in the positive sense of actors who smooth bumps in the process, include other city agencies, the mayor, and the nonprofit development corporation. The appearance of nonprofit development corporations in what have been strictly private (investor) and public (fixer) roles, suggests that they function as a meshing organization. They operate across both public and private sectors and minimize the gap between them.

The coordinator role is played by other city agencies, the nonprofit development corporation, and the Chamber of Commerce. The diversity of actors playing this role suggests that the particulars of a given situation will dictate which kind of coordinator emerges. In cases where the initiator was the mayor, the Chamber might come to the fore, while in developer-initiated projects, city agencies may serve as coordinators. This is speculative, however, and another pattern may prevail. In any event, the omnipresent nonprofit development corporation is also an important coordinator as the deal unfolds.

The equivocal position of the Chamber of Commerce is evidenced by its appearance among the "scene-stealers." In fact, the economic development professionals consider the Chamber the leading scene-stealer, followed by state officials. This suggests that the Chamber's active involvement as a coordinator may give rise to issues of credit claiming. State officials are virtually absent from local dealmaking. According to local officials, when they do appear, it is in a scene-stealing mode. There is some variation between routine and nonroutine deals in the case of scene-stealing. In routine deals, the local newspaper joins the Chamber and state officials; in nonroutine deals, the third scene-stealer is neighborhood groups.

Which actors serve as the thorns in the side of economic development dealmaking? The data in Figure 4-1 identify the local newspaper, neighborhood groups, and labor union leaders as the troublemaking triumvirate. These are the actors who raise questions about the impact of the deal, about what is being traded, about who the beneficiaries will be. The press as watchdog is an expected (and necessary) role. As for the other troublemakers, they are the local groups most estranged from the deal. Yet neighborhood groups and labor union leaders represent individuals who will be experiencing the details of a deal. For example, the location of a development project affects neighborhood residents; the work arrangements affect union members. The "troublemaking" of neighborhood groups and labor union leaders is simply the same kind of self-interested behavior that the other actors in the economic development process demonstrate.

Supporters of the deals include the mayor and the Chamber, and somewhat surprisingly given their leading troublemaker status, the local newspaper. This indicates that the dealmaking environment is not necessarily the same from one city to another, or from one deal to another. Perhaps this is why the local newspaper is perceived problematically by city economic development officials. When the newspaper is part of the team, dealmaking is easier. When the press becomes an adversary, it can be a formidable opponent.

The non-players tend to be labor union leaders, federal officials, (for routine deals) state officials, and (for nonroutine) neighborhood groups. In some cities, in the view of knowledgeable insiders, the economic development environment is relatively consensual. Groups that are troublemakers in other cities are non-players in these. Dealmaking proceeds quite handily. The presence of federal and state officials among the non-players indicates that, despite their importance in program creation and funding, they tend to be absent from dealmaking. Putting deals together is a local operation.

Analyzing the data from the perspective of the actors highlights an overlapping cluster of central actors -- nonprofit development corporations, mayors, developers, the Chamber of Commerce, and the local newspaper -- who play multiple roles. In any type of deal, these players are likely to be the influential few. And they have influence beyond a single aspect of the deal. Some of the other actors are important to a deal in a specific way, e.g., providing financing or guiding the participants, while others are relatively unimportant. Actors from other levels of government are either uninvolved, as in the case of federal officials, or unnecessarily interfering, as state officials can be.

(3) The Beneficiaries

The actors make up the interior network in the local economic development process. The potential beneficiaries of the process include not only these insiders but also groups often on the outside: the labor force, business firms, neighborhoods. The latter are people and places that play a minor role in economic development machinations but are fundamentally affected by the outcomes. In other instances, the actors and the beneficiaries are indistinguishable: local elected officials, developers, financial interests. They play major roles and are in a position to reap substantial benefits. ("Benefit" is used here in its

broadest sense as a "preferred outcome.") One might speculate that the level of involvement is directly related to the size of the potential benefit from the project.

In the NLC survey, economic development professionals were asked to estimate the level of benefit these groups recouped from city-sponsored economic development activity during the previous five years. There were three possible levels of benefit: major, minor, and nonbeneficiary. The results are displayed in Table 4-1.

Table 4 - 1 Beneficiaries

	<u>Major Beneficiary</u>	<u>Minor Beneficiary</u>	<u>Not A Beneficiary</u>
Central Business District	74.4	21.1	4.5
Local Developer	66.9	31.5	1.6
Local Labor Force	66.3	31.4	2.3
Existing Business Firms	59.6	39.4	1.0
New Business Firms	46.7	50.7	2.6
Unemployed Workforce	43.9	48.2	7.9
Low Income Neighborhoods	43.6	47.2	9.1
White Collar Workforce	42.0	51.5	6.6
Local Elected Officials	39.5	37.8	22.7
Blue Collar Workforce	39.3	54.2	6.5
Local Commercial Banks	35.3	55.6	9.2
Out of Town Financial Interests	27.1	55.9	17.1
Middle Income Neighborhoods	23.5	65.8	10.6
In-Migrating Labor Force	18.4	52.2	29.4

Who benefits when city government enters the economic development arena? The big winners in a majority of cities, according to local economic development professionals, are the central business district, local developers, the local labor force, and existing business firms. All four of these beneficiaries represent extant interests as opposed to potential new ones. The success of the central business district in capturing benefits is not surprising, given the prominence of downtown redevelopment in the hierarchy of city economic development goals. Increasing employment opportunities and retaining existing business are rationales for government intervention in the local economy, and the findings in Table 4-1 indicate that the local labor force and existing business firms have, in fact,

benefited from government action. This is not an unplanned consequence. Local developers, too, are an expected beneficiary, considering the nature of the enterprise.

The economic development context that city governments confront is not identical from one place to another. City size, region, level of distress, and economic structure may affect the distribution of benefits among the four major beneficiaries. The influence of these characteristics is discussed below.

The rewards reaped by the four major beneficiaries is not related to city size. The central business district, local developers, the local labor force, and existing business firms all benefit substantially in cities from large to small. However, there is some regional variation for three of the four major beneficiaries. (The local labor force benefits to approximately the same degree regardless of region.) For example, the percentage of cities in which the central business district has been a major beneficiary varies from 89% in the West North Central region to 50% in the West South Central. For local developers, the percentage of cities in which they have been major beneficiaries ranges from 90% in New England to 57% in the Pacific region cities. For existing businesses, their major beneficiary status extends from 71% of the Mid-Atlantic cities to 46% of the West South Central cities. The variation shown here raises interesting speculation about development patterns from one region to another: concentrated efforts as opposed to diffuse, infusions of local capital versus imported capital, and the reliance on attraction versus retention strategies. As we find more and more often in economic development studies, national norms and averages frequently mask significant regional variation.

The city's level of distress seems a factor in the distribution of benefits. For example, although the central business district is a clear winner in economic development efforts, it wins more frequently in highly distressed cities than it does in cities that have low levels of distress. The same pattern occurs with regard to existing business firms. They are major beneficiaries in 76% of the highly distressed cities; in the least distressed cities, the percentage drops to 50%. The level of city distress does not appear related to the distribution of benefits to local developers and the local labor force. Their level of benefit is maintained regardless of distress. They win.

There are interesting correlations between the economic structure of a city -- whether its employment base is above average in manufacturing, retail, services, or government -- and

the major beneficiaries. Retail cities and service cities are at odds with the general pattern. The local labor force and existing businesses tend to enjoy benefits less frequently in retail economies and more frequently in service economies. The numbers are interesting. Fifty-two percent of the retail cities report that the local labor force has been a major beneficiary and 45% indicate that existing business firms have been major beneficiaries. For service cities, the corresponding percentages are 88% and 75%, respectively. In other words, the local labor force and existing business firms in service economy cities benefit most heavily from city-sponsored development efforts. These groups benefit in many retail cities but to a lesser extent. The local economic structure appears to have no effect on whether the central business district or local developers benefit. They benefit, irrespective of economic structure.

The remaining groups in Table 4-1 tend to be minor beneficiaries of city efforts. These minor beneficiaries include several non-local or new entities such as new business firms, out of town financial interests, and the in-migrating labor force. Included among minor beneficiaries are groups (the unemployed workforce) and places (low income neighborhoods) that are already disadvantaged by the local economy. Other more advantaged groups (the blue collar and white collar workforces) and places (middle income neighborhoods) are also minor beneficiaries. Local elected officials and local commercial banks do not benefit to any substantial degree despite their involvement in the economic development process.

There are some city types in which these groups benefit more substantially. As was found with the major beneficiaries, city size, region, distress, and economic mix can have an impact on the distribution of benefits. This appears true for minor beneficiaries as well. For example, new business firms have benefited at a higher rate in more East South Central cities than anywhere else in the nation. They have benefited in a majority of manufacturing-based cities. The unemployed workforce has been a major beneficiary in 76% of the New England cities and in 68% of the highly distressed cities as compared to the national average of 44%.

Interesting patterns emerge when groups that vary on the same dimension -- occupational status, income, location -- are compared. For example, the white collar workforce benefits at a higher than average rate in service cities, much lower than average in retail cities. The blue collar workforce, on the other hand, is a major beneficiary in cities whose economies mirror the national configuration of services, manufacturing, and retail. Blue

collar workers find their lowest level of benefit in cities heavily dependent on government employment.

Low income and middle income neighborhoods benefit at different rates in different types of cities. Middle income neighborhoods are more likely to be major beneficiaries in cities with a national-norm economy than in any other type of local economy. For low income neighborhoods, the greatest benefit can be found in manufacturing-based economies. Overall, regional differences do not materialize for income categories. The exception is in the Mountain region. Low income neighborhoods find their highest level of benefit in the region while middle income neighborhoods encounter their lowest level of benefit there. A city's distress level does not appear to affect the benefits that middle income neighborhoods receive from city-sponsored economic development activities, but it does influence the level of benefits for low income neighborhoods. Very simply, in the least distressed cities, low income neighborhoods do not benefit. In the most distressed cities, they do.

Generally, financial interests tend to be minor beneficiaries of city-sponsored economic development activity. There is some variation between local banks and out of town financiers. For example, in cities under 50,000 population, local commercial banks enjoy their greatest level of benefit; out of town financial interests find the least benefit there. There are regional differences in the benefit level of local commercial banks. Local banks have benefited at a high rate in New England cities, at a low rate in Pacific area cities. For out of town financial interests, the important factor is a city's economic structure. In manufacturing-based economies, out of town financial interests have benefited at a very low rate, while in service-based economies they have benefited at twice the average rate.

Type of city, then, does influence the distribution of benefits. This influence extends to organizational structure and dealmaking roles. The internal dynamics of the local economic development are affected by a city's size, location, distress, and economic structure. These are powerful forces whose interaction structures the economic development process.

Contextual characteristics are not the only interacting features. In many instances, actors who play important roles in the dealmaking that surrounds development projects are also beneficiaries of the process. There is little disagreement that the local economic

development process distributes benefits unevenly. It is incumbent upon city government to ask the cui bono (who benefits?) question.

CHAPTER 5

THE SUCCESS/PERFORMANCE ISSUE

City efforts to promote economic development have met with equivocal success. This was succinctly underscored in the title of a recent book chapter: "Local Economic Policies: Trying to Drain an Ocean with a Teaspoon." It is very difficult to mitigate the effects of massive, system-wide, economic transformations, much less reverse them. City governments are increasingly being exhorted to do so, however.

Cities confront three interrelated problems in their efforts to promote economic development. The nature of the task is a problem in itself as cities -- dependent, territorially-confined governmental jurisdictions -- attempt to achieve economic goals. How can city governments with all their constraints be a catalyst for economic development? A second dilemma involves the measuring the impact of city governmental efforts. How does a city know when it has been successful? The third problem evolves from the first two. Assuming that local government efforts have a measurable, but marginal effect, how can the focus be shifted from "there's not much we can do," to "given that, where can we effectively focus our efforts for maximum return?"

These interrelated problems form the heart of this chapter. The discussion of the issues of effort, measurement, and focus will be documented by responses to the two 1987 National League of Cities' surveys of mayors and economic development professionals.

(1) City Government Efforts at Economic Development

Many studies suggest that the effect of government policy is felt only at the margins. The underlying argument is that many of the factors that affect the movement of commercial enterprise are beyond manipulation by the local community. Conditions such as location, land cost and availability, and labor supply are said to be most influential in sparking economic growth. In addition, national and regional trends, as well as changing technology, shape the city's economic prospects.

Other studies, however, are more sanguine about government-sponsored effort. They contend that factors such as municipal entrepreneurship, civic effort, and the joint efforts

of the local business community can greatly influence the fate of the local economy. Government, they argue, can create a climate for economic growth indirectly through its "rules of the game" and directly through subsidizing preferred enterprise.

The debate in Massachusetts, although pitched at the state level, is instructive. During the past five years, Massachusetts has experienced a major economic resurgence. Indicators-- investment, jobs, income -- are up. This represents a dramatic turnaround from conditions in the 1970s. At issue is the role that state government has played in the economic recovery. One side claims that state government was an important catalyst; the other argues that it played a negligible role. This mirrors the debate reverberating through city halls across the country.

The contemporary intertwining of public and private sectors makes it difficult to sort out specific sectoral roles. Economic adjustment does not occur in a vacuum. Firm births and deaths, expansions, contractions, and relocations occur within political jurisdictions. Government policy influences land values and investment climate, the quality of the workforce and the supply and quality of the infrastructure. These facts alone make it difficult to defend the position that local governments have no effect on the local economy. Just how much effect, however, remains a matter for examination.

The tenuous link between input and output, between effort and result, is not lost on local political leaders. In the NLC survey of mayors, 93% either strongly agreed or tended to agree with the statement "city governments are responsible for stimulating and guiding economic growth." This consensus suggests an activist role for city governments in promoting economic development. In the next breath, however, 69% of the mayors either strongly agreed or tended to agree with the statement "a lot of local economic activity is beyond city hall's ability to influence." Hence the activism is tempered by ample skepticism.

A number of city characteristics affect the strength of these mayoral attitudes. Region, city size, level of distress, and economic structure are important influences.

There is not much regional variation in the city government responsibility statement. The greatest agreement is found in the West South Central where all of the mayors support the city government responsibility statement. The lowest agreement occurs in the Mountain

region where 84% of the mayors support the statement. All of the other regions have agreement percentages within this range. This limited variation indicates that, throughout the country, city governments take responsibility for guiding and stimulating local economic growth.

The "beyond city hall's ability to influence" statement can be considered an indicator of city efficacy. "Efficacy" means effectiveness. High levels of agreement with the statement indicate lower efficacy, while disagreement suggests greater efficacy. Two regions share the highest level of agreement for the "beyond city hall's ability to influence" statement: the South Atlantic region and the West South Central (78%). The greatest disagreement is among mayors of the East North Central region cities of Ohio, Indiana, Illinois, Michigan, and Wisconsin (60%). Mayors in this area evince a greater degree of confidence in the influence of city government.

Of special note are the West South Central region's mayors. They display high levels of agreement with both the government responsibility statement and the efficacy statement. This can be interpreted as either dissonance or realism.

The gap between city responsibility and city efficacy is especially strong among mayors of cities with populations less than 50,000. This most likely reflects the difficulties of smaller cities to marshal the resources necessary to exert a significant impact on the local economy.

There is no pattern with regard to a city's level of distress and mayoral agreement with the two statements. Cities with medium levels of distress show the greatest agreement with the city responsibility statement (94%). With the "beyond the city's ability to influence" or efficacy statement, a counterintuitive pattern prevails. Cities with the lowest levels of distress have higher levels of agreement with the statement (70%). Proportionately fewer of the mayors of high distress cities support the statement. The range of disagreement is not substantial enough to more than suggest that mayors of troubled cities are more convinced that their efforts will bear fruit than are mayors of healthier cities. This implies a certain resiliency among distressed city mayors.

With one exception, the economic structure of a city does not appear to affect mayoral attitudes regarding responsibility and influence. The exception is in cities that, compared

with the national average, are more dependent on retail sector employment. Mayors of these cities indicate more disagreement with the responsibility statement and more agreement with the efficacy statement (77%) than do mayors in other types of cities. This suggests that retail-based cities are more oriented toward market forces than are other types of cities.

The degree of abstraction in the "city government responsibility" and "beyond city hall's ability to influence" issue can be lessened by linking actions and efforts to specific economic outcomes. The NLC survey of economic development professionals posited a series of outcomes and asked for an assessment of the role that city government played in bringing them about (or, in the case of negative outcomes, in forestalling them.) The city's role could be major, minor, or, if the change were a function of larger economic trends or chance, nil. The assessments of the economic development professionals are displayed in Table 5-1.

Table 5 - 1 The City's Role in Effecting Economic Development Outcomes

			City has played no role because the change has been:	
	<u>Major Role</u>	<u>Minor Role</u>	<u>Trend Driven</u>	<u>Totally Chance</u>
The City's Physical Appearance	81.7	16.3	1.0	1.0
The City's Tax Base	70.2	21.0	7.4	1.3
Balanced, Quality Growth	52.4	35.5	9.8	2.3
The Number of Jobs	46.3	36.5	14.3	2.9
The Amount of Diversity	28.1	44.4	23.9	3.6
Self-Sufficient Economy	21.1	39.8	32.1	7.0
The Level of Personal Income	10.4	37.8	46.9	4.9
Distributional Equity	8.7	38.9	37.6	14.8

The distribution of percentages in Table 5-1 reveals the divergence between the four outcomes that are government-directed and the four that are less so. The latter group further subdivides into two groups: the first includes two outcomes in which city government is a minor contributor, while the second is composed of two outcomes in which government is even less involved.

Economic development professionals indicate that city governments have played a strong role in two outcomes traditionally associated with the public sector: the city's physical appearance and its tax base. Through its regulatory powers, a city government can control the way the city looks, and, through its fiscal authority, it can influence revenue. Two other outcomes for which city governments take credit are the achievement of balanced, quality growth and the number of jobs in the community. Balanced, quality growth is a function of regulatory power, but employment opportunities can be a direct result of a city's economic development plan. All four of these outcomes are economic development-related, but they require the marshalling of different facets of the city's authority.

According to the data in Table 5-1, city governments are involved in economic diversification and in the development of self-sufficient economies, but most do not take the lead in promoting these outcomes. A limited government role within larger economic trends seems to be the prevalent approach to these two related development objectives. City governments seem to see themselves as contributors to, rather than directors of, these outcomes.

With the two remaining outcomes, a large proportion of cities report no involvement and attribute any changes to external trends. City officials see the level of personal income and the degree of distributional equity (the sharing of economic development benefits across social classes) as derivative of the larger economic fortunes of the city. In other words, if the economy is growing at a steady pace, then the level of personal income should rise. Personal income is seen as a function of the overall growth trend, and compared to other outcomes, less amenable to city government intervention.

Distributional equity is another outcome which most city governments have not pursued. But distributional equity is slightly different from personal income in that, according to the respondents, it has an element of chance to it. Thus, while distributional equity depends largely on economic trends and limited city involvement, chance plays a strong role. Some of this can be explained by the fact that 65% of these "chance" responses are from cities where the mayor has indicated that much economic activity is beyond city hall's reach. The operative mindset in these cities seems to be that there is little that city government can do. This may reflect a resigned acceptance of the existing situation.

The few cities that have assumed a major responsibility for these decidedly nongovernmental outcomes (personal income and distributional equity) have few characteristics that isolate them from the rest of the cities. As for size, larger cities (populations greater than 200,000) are more likely to achieve these outcomes. The section of the country more prone to adopt an activist attitude to these outcomes is the East South Central. Cities with a large governmental component in the local employment base are more likely to pursue the personal income and distributional equity outcomes than are other types of cities.

Cities then, take responsibility for economic outcomes. But how risky is the venture into economic development? "Not very" is the reply of city economic development professionals when asked about potential risks associated with greater city government involvement in the local economy. In the NLC survey, economic development professionals were asked to assess the likelihood that development incentives given a firm would produce an undesired result. Table 5-2 reports the responses.

Table 5 - 2 Risks Associated With Greater City Involvement In the Local Economy

Subsidized Firm:	<u>High Likelihood</u>	<u>Between High And Moderate Likelihood</u>	<u>Moderate Likelihood</u>	<u>Between Moderate and Low Likelihood</u>	<u>Low Likelihood</u>
Does Not Provide Expected Number of Jobs or Make Expected Contribution to the Tax Base	6.7	11.1	44.6	21.3	16.2
Requires Additional City Subsidies	2.2	8.0	33.8	30.3	25.8
Refuses to Provide Level of Amenities or Other Items Agreed to (or is Substantially Late)	2.2	7.3	26.9	29.1	34.5
Moves to Another City	0.6	2.9	16.0	33.2	47.3
Goes Bankrupt	0.3	2.9	20.8	38.0	38.0

The data in Table 5-2 portray a pattern of confidence about the city's relationship with its private sector. Perhaps that confidence is due to the wisdom of the city's investments; that is, the city does not grant development incentives without being assured of the return. Or the confidence could stem from a strong local economy capable of carrying even the most marginal enterprise. Whatever the source, confidence prevails. The greatest risk that cities face is that the favorably-treated firm does not provide the expected number of jobs or make the expected contribution to the tax base. Eighteen percent of the cities see this as more than moderately likely to occur. For the rest of the risky occurrences, the preponderance of opinion is clustered in the two lower likelihood categories.

In the view of economic development professionals, the two least serious risks -- that the firm will require additional city subsidies or that it will refuse or delay providing the agreed upon amenities or other items -- are the most likely. Very few cities fear that a preferred firm will go bankrupt or abandon the city. City officials presume that their increased involvement with the private sector can be relatively risk-free.

Evaluation of risk appears to be related to a city's level of distress. Cities with high levels of distress perceive a riskier public-private sector environment than do low distress cities. This pattern prevails irrespective of the nature of the risk. The only regional pattern in the data is in the risk-conscious East South Central. More cities in the region see the likelihood of undesirable outcomes than do cities in other regions.

To return to the issue posed at the outset, it is evident that city governments are actively pursuing economic development. In the abstract, there is an acknowledged gap between effort and result, but despite that, city governments claim some achievements.

(2) Measuring Economic Development Success

Measuring success in economic development is not easy. There is confusion as to just what success is. For example, some cities point with pride at a revitalized central business district and claim successful economic development. Other cities count up the number of new firms and declare victory in the economic development wars. Others talk about renewed community spirit as a sign that economic development has been successful. One way out of this measurement quagmire is to link success to the achievement of goals.

A means of addressing the "success as goals" issue is to ask the staff member most

knowledgeable about the process to (1) assess his/her city's level of success and (2) assess the success of other cities. This approach contains subjective bias. In the first case, the subjectivity can be controlled somewhat by simply assuming that all of the assessments are moderately inflated. Given their functional responsibilities, city economic development professionals are likely to overstate their city's performance. With the second assessment, the subjectivity has to do more with incomplete knowledge. That is, a city official is less likely to know about distant cities or cities that receive little media attention. The unfamiliarity problem is minimized, however, in that the NLC survey covered cities of all sizes nationwide.

This method has positive features that outweigh the negatives. First, by asking a staff professional about his or her city, success is implicitly evaluated in terms of city-specific goals rather than an externally imposed indicator. Second, the assessments of other cities are likely to be informed by the kind of "insider" information that professionals share within the ranks. Thus, although limitations exist, the approach can yield some insights. The next two subsections of the chapter address internal and external assessment of success.

How Successful Do Cities Think They Are?

Strategic planning is an increasingly popular local government activity. In economic development, strategic planning involves an assessment of the foundation of the local economy, community assets and liabilities, and the resultant identification of goals and objectives. These goals and objectives take the form of quantifiable targets. The NLC survey of city economic development professionals asked them how successful their city has been with specific economic development targets during the past five years. A list of nineteen potential targets was provided along a scale ranging from "very successful" to "not successful." Table 5-3 presents the findings.

Among geographic targets, cities have enjoyed the greatest success with downtown development. More cities report higher levels of success with it than with any other development objective. It has been especially successful among larger (over 100,000 population) cities and in cities with higher distress levels. One of the tensions in local economic development is between the more centralized, "downtown first" strategies versus

Table 5 - 3 Targets and Success

	<u>Very Successful</u>	<u>Between Very & Moderately Successful</u>	<u>Moderately Successful</u>	<u>Between Moderately & Not Successful</u>	<u>Not Successful</u>
Geographic Targets					
Downtown Development	38.9	20.9	27.6	10.0	2.7
Neighborhood Centers*	8.9	18.6	49.6	15.5	7.4
Waterfront Development*	19.7	16.3	21.9	19.1	23.0
Industrial Areas	24.5	19.6	41.6	10.8	3.5
Entrepreneurial Targets					
High Tech Development*	13.6	14.0	36.0	22.4	14.0
Small Business Development	13.4	31.0	45.5	9.3	0.7
Office Buildings	33.9	28.2	27.1	8.2	2.5
Minority Business Development*	3.5	11.4	37.3	34.9	12.9
Community Development Corps.*	7.7	14.5	24.5	25.0	28.2
Business Targets					
Retain Existing Business	21.6	34.8	34.8	7.9	1.0
Expand Existing Business	22.6	37.0	33.0	7.1	0.3
Retool Existing Business*	5.0	14.5	40.5	29.5	10.5
Attract New Business	19.7	29.4	38.5	9.4	2.9
Diversify Business Mix	10.8	30.6	39.9	14.7	4.0
Occupational Targets					
Routine Operations*	9.3	22.9	52.5	11.4	3.8
Precision Operations*	4.7	19.4	48.3	19.4	8.2
Research and Development*	13.4	15.9	38.2	19.5	13.0
Central Administration*	8.5	22.5	43.2	18.2	7.6
Entrepreneurship*	7.4	23.6	48.8	16.1	4.1

* = response rate less than 85%

decentralized "neighborhood" revitalization efforts. Comparing the distribution of the percentages, it is evident that the centralized approach has been more successful for cities. There are some cities that have been successful with neighborhood centers -- typically cities in the Mountain region and cities with low levels of distress.

A geographic target firmly lodged on the successful side of the table is industrial areas. The level of success is not as high as it is with downtown development, but given the ongoing importance of industrial jobs to many local economies, targeting industrial areas is a viable strategy. The percentage of cities reporting that they have been "very successful" is virtually the same regardless of city size categories. There is some regional variation with cities in the South Atlantic area reporting a much higher rate of success with industrial area targeting than cities in other regions.

Waterfront development is the geographic target for which many cities report less than moderate success. Waterfront development efforts have been most successful among large cities (over 200,000 population) and among cities with economic structures based on government and services.

Entrepreneurialism is a popular concept in the contemporary economic development arena. It conveys an image of new enterprise, start-ups, and risk-taking. The entrepreneurial target most successful for cities is office buildings. However, there is some question as to whether office buildings have been part of a conscious strategy or simply a by-product of favorable tax and financing provisions, especially as the stock of unused office space rises. Whatever the answer, there is no question that they have changed the face of both central city and suburban commercial areas. In the Mid-Atlantic, success with office buildings has dominated all other targets.

Most cities have had at least moderate success with small business development, and, to a lesser degree, with high tech development. These are two targets that many observers believe hold the key to healthy, future oriented local economies. Larger cities enjoy the greatest success with small business development along with cities having a manufacturing or service-based economy. This is especially true for cities in the East North Central region. As for high tech development, it has flourished among nondistressed cities and in cities in the East South Central portion of the country, irrespective of city population size.

Overall, the least successful entrepreneurial targets have been community development corporations and minority business development. The economic development strategy in which these are high priority targets typifies concern over the diffusion of benefits. The lower success rate signifies the difficulty of translating distributional concerns into practice. Cities that have experienced the greatest success with community development corporations are large cities (over 200,000 population), cities with heavily service-oriented economies, and cities in the Mountain region. Cities with success in minority business development tend to be cities with medium levels of distress and cities located in the Pacific region.

Many cities report high success rates with business targets, especially in the retention and expansion of existing business and the attraction of new business. The New England, Mid-Atlantic, and East South Central cities report high degrees of success in targeting existing businesses while the Mountain and Pacific cities have had the greatest success in attracting new business. Smaller cities (less than 100,000 population) have enjoyed more success in attracting new business than have their larger counterparts. A city's distress level is another characteristic that is related to successful strategies. Cities with medium levels of distress have had more success with retention and expansion while low distress cities are successful with an attraction strategy. Unfortunately, high distress cities show no clear pattern with regard to successful business strategies.

Two business targets with which cities have had comparatively less success are: diversifying the business mix and retooling existing business. These targets have traditionally been subsets of the retention and attraction strategies; hence, success with them may lag. There are some regional patterns within the data, however. Cities in New England have been far more successful with diversification than have cities in other region. Success with retooling has been more prominent in the Mid-Atlantic and in the East North Central areas.

Targeting occupations is an emerging way of approaching the economic development issue. Rather than focusing on industrial sectors, occupational targeting revolves around broad employment categories. The low response rate to this set of questions is evidence that this target is new to cities. Among those who did respond, the modal response category is "moderate success." Research and development is the only occupational target where more than 10% of the cities have been very successful.

There are not many patterns associated with occupational targeting. Low distress is one characteristic of cities successful with research and development occupations. A Mountain or East South Central location is another. Large cities (over 200,000 population) have been more successful with central administration than have cities of other sizes. Cities with manufacturing-based economies have been more successful with entrepreneurship than have cities with other economic foundations. Neither routine nor precision operations have definable city characteristics associated with their success.

Which are the Successful Cities?

According to the economic development professionals surveyed, the success stories in economic development can be found in Baltimore, Boston, San Antonio, Atlanta, and Indianapolis. These five cities were mentioned most frequently by the survey respondents as having experienced the most success in their economic development efforts over the past five years. Table 5-4 lists all the cities that received ten or more nominations to the "most successful" list. It is noticeable in its diversity. There is no archetypally successful city, no single model.

Table 5 -4 The Successful Economic Development Cities

City Name	Number of Nominations
Baltimore	59
Boston	52
San Antonio	48
Atlanta	28
Indianapolis	27
Minneapolis	18
Pittsburgh	18
San Diego	18
Austin	17
St. Paul	14
Charlotte	13
Dallas	13
Phoenix	13
Orlando	12
San Francisco	11
Santa Ana	11
Tampa	11
Long Beach	10
St. Louis	10
Seattle	10

The explanations provided by the economic development professionals for the success of the top five cities focused on a number of factors. One was political leadership -- most typically in terms of the mayor's role as catalyst and consensus-builder. In addition, successful cities made a concerted effort to chip away at the traditional barriers that divide the public and private sectors, suggesting a depoliticization of the development process in these cities. A third characteristic of successful cities is that they have undertaken comprehensive downtown revitalization plans. In many instances, their aggressive actions have reversed a trend toward downtown decline. But these cities have not revitalized their downtowns at the expense of neighborhoods. They have developed community-conscious approaches that spread the benefits of economic development beyond the commercial core.

The three cities with the most mentions, Baltimore, Boston, and San Antonio, truly have national reputations for success. Their success was duly noted by cities throughout the country. Atlanta and Indianapolis, on the other hand, tend to have more regionally based reputations. Atlanta's appearance among the successful cities is due, in large part, to the high ratings it receives from other cities in the South Atlantic region. Indianapolis draws the majority of its high ratings from the nearby East North Central cities of Ohio, Indiana, Illinois, Michigan, and Wisconsin.

The other successful cities listed in Table 5-4 are a diverse lot. Scattered across the country, they include cities new to the national arena as well as those established among the economic development leaders. The list includes cities where economic conditions are such that minimal city effort yields a high return. The elusive effort/result issue is the subject of the next subsection.

Measuring Success

In their mayor's eyes, city government efforts have generated remarkable successes. Sixty percent of the mayors indicate that, in their own city, governmental efforts have had a major or significant effect on local economic health. Only 7% reported that their city's efforts had a minor effect or none at all. Some of this sentiment may be due to the inability to pinpoint causes amid a host of effects. Some of it may be attributable to heightened public expectation that the city engage in promotional actions and produce

results that allow credit claiming and inflated pride. To explore the effort/result linkage in a systematic way requires statistical analysis.

Correlational analysis will indicate whether effort is linked to success. Correlation coefficients are simply measures of association. Their values (ranging from -1 to +1) indicate the strength of the relationship between two variables, in this case, between effort and result. The closer the correlation coefficient is to -1 (or to +1), the stronger the negative (or positive) relationship between two variables. A correlation coefficient near zero indicates the lack of relationship. The statistical symbol denoting a correlation coefficient is "r." "Statistical significance" refers to the likelihood that the reported findings are real or random.

To measure effort, cities were asked to indicate which of a group of forty-five economic development tools they had used in the past. In addition, they were asked to indicate the extent to which they had used these tools in 1986. The tools are used to reduce costs to business, to improve city government's capacity for development, and to promote the city as a place for investment. Their responses, when summed and averaged, become a "past activity score" and a "1986 activity score." These are the effort measures. They indicate how actively a city has been pursuing economic development. The economic development tools and their usage rates appear in Appendix C.

One way of measuring result is to ask city officials how successful their efforts have been. As already noted, this has the disadvantage of subjectivity. Taking the subjectivity as a given, the target success responses can be assigned values (from 5 for very successful to 1 for not successful), summed and averaged for each city. This produces a "subjective success" measure.

The correlations in the first column of figures in Table 5-5 show that activity is strongly associated with the subjective success measure. Cities that use more tools and use them more extensively report the greatest success with the targets. The correlation between past activity rates and perceptions of success is $r = .44$. Between the 1986 activity rate (measuring extent of activity) and perceptions of success, the correlation is $r = .45$. Statistically, these are extremely significant findings. Substantively, they indicate that insofar as economic development professionals are concerned, activity is related to success.

Table 5 -5 Correlation Between Effort and Result

EFFORT	RESULT		
	Subjective Success Measure	Unemployment Change 1985-87	Unemployment Change 1986-87
1986 Activity Score	.45	-.20	-.12
Past Activity Score	.44	-.18	-.12
Use of Cost Reduction Tools	.43	-.13	-.10
Use of Capacity Improvement Tools	.38	-.25	-.17
Use of Market Expansion Tools	.35	.05	.06

These findings hold when the tools are categorized by type: cost reduction, capacity improvement, and market expansion. The correlations with perceptions of success are $r = .43$, $r = .38$, and $r = .35$, respectively. Regardless of whether the intent is to reduce the cost for business, improve the capability of city government to pursue economic development, or promote the city, tool use is related to success.

As already noted, success, as measured in the survey, is highly subjective. Objective measures are needed to provide a true test of the link between effort and result. One objective measure that others have used to assess the performance of the local economy is changes in the unemployment rate. For the cities in the sample with populations greater than 100,000, two different changes in unemployment rate figures were calculated. One covers the two-year period from 1985 to 1987; the other covers a one-year period from 1986 to 1987.

If cities actively promoting economic development are experiencing success (measured by a decline in unemployment rates), then the correlations should be negative. That is, higher use of the economic development tools should be negatively related to unemployment. As tool use increases, unemployment should drop.

As reflected in Table 5-5, there is a weak, but statistically significant relationship between both "past activity" and "1986 activity" and the longer term success measure, unemployment change from 1985-1987. (The correlations are $r = -.18$ and $r = -.20$.) When the activity

scores are broken into components, the capacity improvement tools are found driving the relationship. The use of capacity improvement tools is correlated with declining unemployment at $r = -.25$. The use of cost reduction tools is weakly related to declining unemployment, and it is not statistically significant, $r = -.13$. The use of market expansion tools is $r = .05$, indicating the absence of any association.

Shifting to the one-year change in unemployment weakens the relationships. The change in unemployment rates from 1986-1987 is, for the most part, unrelated to the use of tools. The correlations for past activity ($r = -.12$) and for 1986 activity ($r = -.12$) are not statistically significant. The importance of capacity improvement tools, however, holds despite the overall weak relationship. The use of capacity improvement tools is correlated with declining unemployment, $r = -.17$. The use of cost reduction tools ($r = -.10$) and market expansion tools ($r = .06$) is not significantly linked to unemployment change.

It appears that effort (as measured by the use of economic development tools) and result (unemployment change, especially longer term change) are linked. Cities that have used more tools tend to have experienced declines in unemployment. The relationships are weak, but there is a link. Tool use appears to be associated with long term economic improvement.

Another objective indicator of success is one that focuses on business formation. Inc. magazine devised a "hot spot" measure based on job generation, business birthrate, and percentage of fast-growth companies. The Inc. data are for metropolitan areas and are, therefore, not directly comparable with the NLC survey data. For use here, the metropolitan area values were assigned to constituent cities. Using this technique means that each city within a particular metropolitan area receives the same score. The flaw in this approach is that the areawide figure may mask variation across different jurisdictions. There may be tremendous differences within a metropolitan area in job growth, business birthrate, and percentage of fast growth companies. Consequently, the correlations are problematical. The data are merely presented for discussion purposes and are not included in Table 5-5.

The correlations indicate that the cautions are well taken. There are no statistically significant relationships between the use of economic development tools and the Inc. "hot spot" score. However, when the "hot spot" score is disaggregated into its three components

-- job growth, business birthrate, and percentage of fast growth companies -- two relationships emerge. Past activity is correlated with the percentage of fast-growth companies, $r = .17$. Cities that have used many economic development tools in the past have a higher proportion of fast-growth companies. However, success is not merely associated with the use of many tools, but, more specifically, with the use of cost reduction tools. Cost reduction tools are correlated with the percentage of fast-growth companies at $r = .21$. Cities that have used many cost reduction tools have a higher proportion of fast-growth companies in their midst. Again, given the disparity between the metropolitan-based Inc. data and the city-based NLC data, these findings are purely speculative.

The correlations between effort and result (as measured subjectively by perceived success and objectively by unemployment change) suggest that city government actions have an effect, albeit limited, on their local economies. As we saw, activity is unquestionably related to the perception of success. Officials in cities that have used economic development tools extensively see their city as more successful in achieving its economic development goals. And while this is worth noting, it should not be overstated. The evaluators of success are the officials responsible for the activity. They are not disinterested observers. However, they are not uninformed observers either.

In terms of objective indicators, the link between activity and success is more tenuous. The data reveal some degree of association, but the relationships are weak. There is no magic formula for success. The highest correlations are between a subset of tools and specific success measures. Of the tools at a city's disposal, capacity improvement tools seem to be related to an improvement in unemployment rates over time. Cost reduction tools appear to be linked to the presence of fast-growth companies.

These results are satisfying in the sense that they help to resolve the longstanding debate about effort and result. The bottom line is that some tools do appear to be related to the achievement of some successful outcomes.

To develop another way of calculating the effects of economic development activity, the cities with the best performing local economies over the last two years (as measured by the substantial improvement in their unemployment rates) were isolated. An unemployment drop of 20% or more was deemed "substantial" and yielded a subset of 33 cities. The

economic development tool usage patterns of these cities were examined and compared to the tool usage patterns of the total sample. This process reveals the activities that separate these successful cities from the rest of the pack. Tools that the subset of cities used at a rate 20 percentage points higher than the total sample are listed in Table 5-6.

**Table 5 - 6 Past Tool Usage of Successful Cities:
Tools Used with a Frequency at Least 20 Percentage Points
Greater Than Total Sample of Cities**

COST REDUCTION:

- Historic Preservation
- Direct Loans to Private Business
- Land Write-Downs

CAPACITY IMPROVEMENT:

- Lot Consolidation
- Land Condemnation
- Land Acquisition
- Land Clearance
- Relocation of Business and Residents From Redevelopment Areas
- Lease of Land to Developers
- Employee Training/Re-training
- Strategic Planning

Overall, successful cities, that is, cities where the unemployment rate has declined the most, use more tools, and they use them more extensively than the sample as a whole. Compared to the total sample, the cities most successful in economic development have used eleven tools much more. These include three cost reduction tools and eight capacity improvement tools.

Among the cost reduction tools, a higher proportion of successful cities have relied upon direct loans to private business, land write-downs, and historic preservation as financial incentives to business. Among the eight capacity improvement tools used by the more successful cities are six land development tools. Successful cities have condemned, acquired, and cleared land; they have consolidated lots, relocated business and residents

from redevelopment areas, and leased land to developers. In other words, successful cities have played a very active role in structuring land use. In addition, more successful cities have invested in human capital through employee training/retraining programs. The other capacity improvement tool popular with successful cities is strategic planning. The successful cities are reacting and adjusting to an economic situation that they understand.

(3) Conclusion: What's a city to do?

Given these findings, the important question becomes: what can cities do to promote their economies? What works? While the effect may be indirect or even somewhat equivocal, city governments are action-oriented and intent upon improving their local economies. They are not likely to rely solely on the workings of market forces to determine the local economy.

Despite this propensity for activism, city governments should be cautious. The issues of applicability and context are very important. In the preceding section, use of eleven tools distinguished the cities that have witnessed dramatic improvements in local employment rates from the other cities in the sample. This does not mean that every city that makes direct loans to business or assembles large parcels of land will see a corresponding drop in unemployment. Cities must design strategies that are applicable to the situations they face. A well-designed strategy aimed at improving the city's capacity to stimulate and guide economic growth holds the promise of success.

Designing such a strategy is no easy process. It involves decisions about goals and objectives, approaches and techniques. It is resolved uniquely in each city through its political process. City governments are, ultimately, the reservoir of public authority in a community. And therein lies another caution. City governments must use their authority circumspectly. Decisions about development cut a wide swath through the community. Some groups are in a position to make demands, others are not. Some groups benefit from a decision, others do not. It is incumbent upon city governments to make the development decision-making process accessible and responsive. In other words, it should be pluralistic.

And finally, when the economic development professionals who responded to the survey were asked what it was that made some cities more successful than others, one persistent refrain was "public-private partnerships." Partnerships with the private sector should be

just that -- partnerships. In an era in which government is disdained and is exhorted to "act more like a business," there is a tendency to embrace private sector solutions to public problems. Economic development, where the stakes are high and the outcomes uncertain, exacerbates this tendency. City governments should take the lead in forging workable, sensible partnerships with their private sectors. It is city government that has, at its heart, concern for the public benefits of the economic development process.

A-1
APPENDIX A

THE RESEARCH PROCESS AND THE SAMPLE

The data presented in The Visible Hand: Major Issues in City Economic Policy are part of a comprehensive economic development study conducted by the National League of Cities during 1986-87. Two different surveys -- one focusing on goals and attitudes, the other addressing policy actions -- formed the basis of the study and generated the data reported here.

In January 1987, the two surveys were sent to 431 cities. The surveys were mailed to mayors with the request that they complete the goals and attitudes questionnaire. Mayors were asked to route the policy actions questionnaire to the staff person most knowledgeable about the city's economic development program. Postcard reminders were sent out three weeks later. A second mailing of the questionnaires went to nonrespondents six weeks after the initial mailing.

Three hundred and twenty-six usable mayors' questionnaires were received in time to be included in the analysis. This represents a more than respectable response rate of 76%. The survey went to the universe of cities with populations of 100,000 or more, the universe of NLC member cities with populations of between 50,000 and 100,000, and a selected sample of NLC member cities with populations below 50,000. The mayors' questionnaire response rate for these three population groups was 74%, 79%, and 73%, respectively. Twenty-seven of the thirty largest cities in the country responded to the mayors' questionnaire.

Three hundred and twenty-two usable staff questionnaires were received in time to be included in the analysis. The response rate for the staff questionnaires was 75%. In terms of the three population groups, the response rate was 79% for large cities, 74% for medium sized cities, and 69% for small cities, respectively. Staff questionnaires were received from twenty-nine of the thirty largest cities in the country.

The mayors' questionnaire was filled out by the mayor of the city, while the staff questionnaire typically ended up in the hands of an economic development professional in a

city department of economic development (the official name of the bureaucratic unit varies). Because the responsibility for economic development may be spread across several departments, in some instances the completed questionnaire was the product of two or more staff members in one or more departments.

APPENDIX B

CITIES RETURNING ECONOMIC DEVELOPMENT QUESTIONNAIRES

ALABAMA

Birmingham
Dothan
Gadsden
Huntsville
Mobile

ALASKA

Anchorage

ARIZONA

Glendale
Mesa
Phoenix
Scottsdale
Tempe
Tucson

ARKANSAS

Fayetteville
Fort Smith
Little Rock

CALIFORNIA

Alhambra
Antioch
Arcadia*
Bakersfield*
Bellflower
Berkeley
Buena Park
Burbank
Carson
Cerritos
Chula Vista*
Compton
Concord
Fountain Valley*
Fremont*
Fresno*
Fullerton*
Garden Grove

Gardena
Glendale
Hawthorne
Hayward
Huntington Beach*
Inglewood
Irvine
La Mirada
Lakewood
Long Beach*
Los Angeles
Modesto
Montebello
Mountain View
Oakland
Oxnard
Palo Alto
Rancho Cucamonga
Redding
Redlands*
Redwood City
Richmond
Riverside
Sacramento
San Diego
San Jose
San Leandro
San Mateo
San Rafael*
Santa Ana
Santa Barbara
Santa Cruz
Santa Monica
Santa Rosa
Simi Valley
Stockton
Sunnyvale
Thousand Oaks
Torrance*
Vallejo
West Covina

COLORADO

Arvada
Aurora
Boulder

Colorado Springs
Denver
Fort Collins
Greeley
Lakewood
Longmont
Pueblo
Thornton
Westminster

CONNECTICUT

Bridgeport
East Hartford*
Enfield
Fairfield
Manchester
New Haven
Norwalk
Stamford
Waterbury
West Haven

DISTRICT OF COLUMBIA

Washington

DELAWARE

Dover
Newark

FLORIDA

Clearwater
Coral Gables
Daytona Beach
Fort Lauderdale*
Gainesville
Hialeah*
Hollywood
Jacksonville
Melbourne
Miami
Miami Beach
North Miami
Orlando

FLORIDA

Sarasota
St. Petersburg
Tampa
West Palm Beach

GEORGIA

Athens
Atlanta
Columbus
Macon
Savannah

HAWAII

Honolulu

IDAHO

Boise
Nampa
Pocatello

ILLINOIS

Arlington Heights
Champaign
Chicago
Decatur
Des Plaines
Downers Grove
Joliet
Moline
Oak Lawn
Peoria
Quincy
Rock Island
Rockford
Skokie
Springfield

INDIANA

Anderson*
Elkhart
Evansville
Fort Wayne*
Gary
Indianapolis

Kokomo
Muncie
Richmond
South Bend

IOWA

Ames
Cedar Rapids
Davenport
Des Moines
Iowa City
Sioux City
Waterloo

KANSAS

Kansas City
Lawrence
Overland Park
Topeka
Wichita

KENTUCKY

Covington
Louisville
Owensboro

LOUISIANA

Baton Rouge
Lafayette
Lake Charles
Monroe
New Orleans

MAINE

Augusta
Bangor
Lewiston
Portland

MARYLAND

Annapolis
Baltimore
Frederick
Rockville

MASSACHUSETTS

Arlington
Boston
Lawrence*
Springfield
Worcester

MICHIGAN

Battle Creek
Dearborn
Dearborn Heights
Detroit
East Lansing
Farmington Hills
Flint
Grand Rapids
Lansing
Lincoln Park
Livonia
Pontiac
Saginaw
Southfield
Sterling Heights
Warren
Wyoming*

MINNESOTA

Bloomington
Brooklyn Park
Duluth
Minneapolis
Rochester
St. Louis Park
St. Paul

MISSISSIPPI

Biloxi
Hattiesburg
Jackson
Meridian

MISSOURI

Columbia
Independence
Kansas City

MISSOURI

Springfield
St. Joseph*
St. Louis
University City

MONTANA

Billings
Butte
Great Falls

NEBRASKA

Lincoln
North Platte
Omaha

NEVADA

North Las Vegas
Reno

NEW HAMPSHIRE

Manchester

NEW JERSEY

Jersey City
Newark
Paterson*
Plainfield
Trenton

NEW MEXICO

Albuquerque
Las Cruces
Santa Fe

NEW YORK

Albany
Buffalo
New York
Niagara Falls*
Rochester
Schenectady
Syracuse

White Plains

NORTH CAROLINA

Asheville
Charlotte
Durham
Fayetteville*
Gastonia
Greensboro
High Point
Raleigh
Winston-Salem

NORTH DAKOTA

Devils Lake*
Fargo

OHIO

Akron
Canton
Cincinnati
Cleveland
Columbus
Cuyahoga Falls
Dayton
Elyria
Euclid
Kettering
Lakewood
Mentor
Middletown
Newark
Springfield
Toledo
Youngstown

OKLAHOMA

Midwest City*
Muskogee*
Oklahoma City
Tulsa

OREGON

Corvallis
Portland
Salem

PENNSYLVANIA

Allentown
Erie*
Lancaster
Philadelphia
Pittsburgh
Reading
Scranton
York

RHODE ISLAND

Cranston
East Providence*
Pawtucket*
Providence
Warwick

SOUTH CAROLINA

Charleston
Columbia
Greenville
North Charleston
Spartanburg

SOUTH DAKOTA

Aberdeen
Rapid City
Sioux Falls

TENNESSEE

Chattanooga
Clarksville
Knoxville
Memphis
Nashville

TEXAS

Abilene
Amarillo
Austin
Baytown
Beaumont
Carrollton
Corpus Christi
Dallas

TEXAS

Denton
El Paso
Fort Worth*
Galveston*
Garland
Grand Prairie
Houston
Laredo*
Longview
Lubbock
Plano
Port Arthur
San Antonio
Tyler
Waco
Wichita Falls

UTAH

Orem
Provo
Salt Lake City*
Sandy City
West Valley City

VERMONT

Burlington

VIRGINIA

Alexandria
Chesapeake
Danville
Hampton
Lynchburg
Newport News
Norfolk
Portsmouth
Richmond
Roanoke
Suffolk
Virginia Beach

WASHINGTON

Bellevue
Everett*
Seattle
Spokane
Tacoma
Vancouver

WEST VIRGINIA

Charleston
Huntington

WISCONSIN

Eau Claire
Green Bay
Janesville*
Madison*
Milwaukee
Waukesha
West Allis

WYOMING

Casper
Cheyenne

*Cities returning mayor's questionnaire only.

APPENDIX C

TABLE 11-1 PERCENTAGE OF CITIES USING ECONOMIC DEVELOPMENT TOOLS

TOOLS	USED IN THE PAST	AMOUNT OF USAGE IN 1986		LIKELY TO USE IN THE FUTURE
		EXTENSIVE OCCASIONAL		
COST REDUCTION				
Deferred Tax Payments	11.2	2.2	8.1	13.7
Direct Cash Contribution to Project	39.4	7.5	30.7	36.6
Direct Loans to Private Business	47.2	16.5	28.3	48.4
Donation of Land to Developers	14.9	0.9	11.2	19.6
Donations of Unused Real Property	28.9	4.3	19.6	29.8
Foreign Trade Zones	19.9	5.0	15.2	37.6
Historic Preservation Designation	59.9	20.8	33.9	63.7
In-Kind Payment	27.3	4.7	18.6	27.3
Issuance of Tax-Exempt Bonds for Private Development	78.3	34.2	36.3	57.8
Land Write-Downs	45.3	10.2	23.0	44.7
Loan Guarantees	30.5	5.6	22.4	32.6
Loan Subsidies	39.8	12.1	22.4	38.5
Revolving Loan Funds	49.1	26.4	21.4	62.1
Sale-Lease Back	16.5	1.9	9.6	24.2
Shared Equity	18.9	2.5	11.8	27.6
Syndication	12.4	4.0	4.7	13.7
Tax Abatement	39.4	12.7	27.0	44.4
Taxable Bonds	13.0	3.4	9.6	37.9
Venture Capital	7.8	1.2	8.7	26.4
CAPACITY IMPROVEMENT				
Assignment of Air Rights	21.4	1.6	14.9	28.0
Building Construction/Renovation	38.8	15.8	20.2	42.9
Daycare Assistance	8.7	3.7	5.9	16.8
Development Fees (Linkage)	17.4	5.0	13.4	27.0
Employee Training/Retraining	53.4	26.4	25.5	55.6
Entrepreneurial Assistance	37.3	16.5	26.4	51.9
Infrastructure Improvements	85.4	47.5	32.3	83.5
Land Acquisition	68.6	23.0	36.3	69.3
Land Clearance	60.6	20.5	30.4	57.8
Land Condemnation	56.5	14.0	30.1	56.2
Leasing of Land to Developers	31.7	6.8	21.7	46.3
Local Survey of Business Needs	56.2	19.3	30.4	66.1
Lot Consolidation	42.2	13.0	23.3	43.2
One Stop Business Center (permitting)	33.2	23.9	9.9	55.3
Procurement Assistance	20.2	6.5	17.7	30.7
Relaxation of Building or Zoning Regs.	22.7	2.5	18.3	24.2
Relaxation of Environmental Regs.	2.5	0.3	3.1	4.3
Relocation of Residents & Business from Redev. Areas	60.6	17.1	28.9	55.3
Sale of Land to Developers	69.3	22.4	36.0	72.0
Special Purpose Zoning	37.6	6.5	26.1	45.3
Strategic Planning	45.7	27.0	23.3	62.8
MARKET EXPANSION				
Advertising	54.0	21.7	36.0	62.4
Export Assistance	14.0	4.3	10.2	26.1
Marketing Strategy	53.7	29.5	28.6	68.9
Promotional Missions (domestic)	42.5	13.4	28.6	50.3
Trade Missions Abroad	25.5	4.0	20.2	32.0

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.



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